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ON THE

COLLECTION OF REVENUE.

BY EDWARD ATKINSON.

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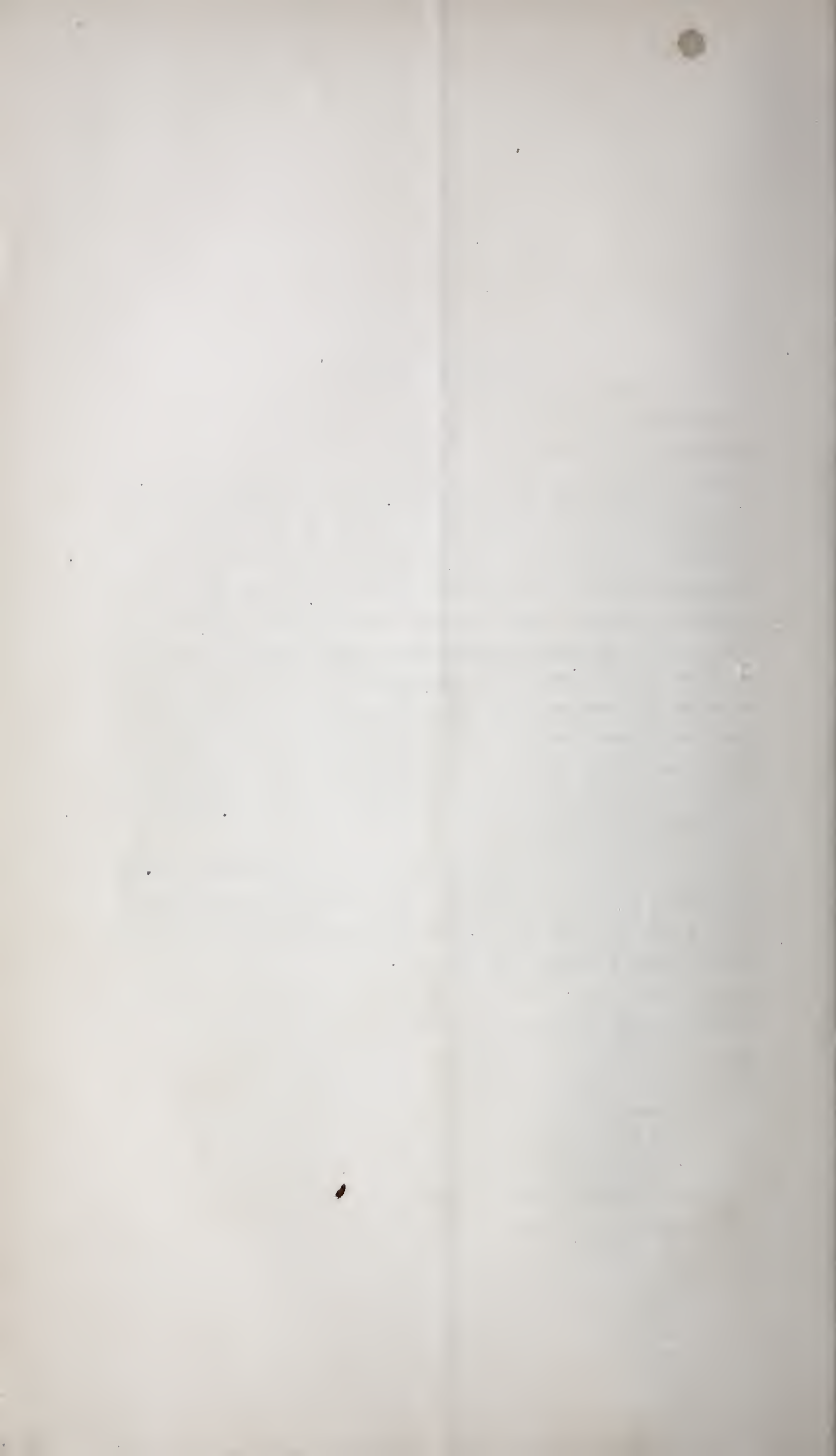
P R E F A C E .

The following Essay was originally written for the purpose of testing the results of my own thought and experience by the formulas of the free-trade economists, and was afterwards read at a meeting of the Economic Section of the American Social Science Association, held in Boston in January. Some extracts, then published, having caused considerable remark, as emanating from a New England cotton manufacturer, I have thought that the publication of the whole might do a service in bringing public sentiment to what I consider just views on a momentous question, and might perhaps cause an abatement of the prejudice existing in some quarters against New England manufacturers, in consequence of views in which they are erroneously supposed to be unanimous.

There is nothing new in the Essay; but it is often useful to apply well-known principles to passing events and present circumstances in a form that will bring them to the observation of those who are too busy to read elaborate treatises.

E. A.

Boston, April 1867.



ON THE COLLECTION OF REVENUE.

In the following essay, I propose to discuss the methods by which the Government of the United States may collect a revenue sufficient for its wants with the least injury to the productive power of the people. The advocates of an excessively high tariff were in a majority in the recent session of Congress, and would have carried their measures, had it not been for the persistent opposition of the minority. I am, however, well satisfied that a considerable portion of the majority voted as they did in deference to the supposed wishes of their constituents, and not because they approved the proposed law, as it was reported by the Committee of Ways and Means. It is quite evident that the whole controversy must be re-opened at the next session of Congress and it therefore becomes the duty of the press to endeavor to enlighten public opinion by clear statements of the fundamental principles upon which the laws for the collection of revenue should be based.

I know not how clearly the controversy may have been conducted in former times, when protection and free trade were prominent in the political contests. In those days, I was an ardent advocate of protection, having been educated in that school, and never having been led to doubt its wisdom. But I had begun to doubt, when the disturbing element of the war came in and by common consent the Morrill tariff was enacted. Whether this was the best method of meeting the wants of the day, or not, need not now be considered. Suffice it to say, that the country accepted a high tariff without argument, and as a war measure. It may fairly be said, that the men who are under forty years of age have never had their attention called to the fundamental principles which must, in the nature of things, underlie the respective theories of protection and free trade, by any real discussion of such principles in the newspapers. Few men begin to have any ideas

upon the subject, that are drawn from their own experience, until they are at least thirty; and, during the past ten years, it has been treated mainly as if all men had real knowledge upon it, when, in fact, there is no subject so important about which men really know so little.

The arguments of the *Tribune*, and other papers upon the side of protection, are addressed to those who are already convinced, and seem to the uninstructed mind to be founded upon the idea that a tariff is something good in itself, — a measure which it would be wise for a community to adopt, even if they had no need of revenue. On the other hand the arguments of the *Evening Post* and other free-trade papers are seldom addressed to those who need elementary instruction, but generally to men who are supposed to have well-grounded ideas upon the subject.

The truth is that our country has such boundless resources, as yet but partially developed, as to have made it easy for any one possessed of ordinary intelligence and industry to get a good living under any system of revenue laws; and mistakes in such laws, injuring but few seriously, have not compelled the attention of the whole people to the methods requisite for their correction. A little irritation, rather than any real check to prosperity, has caused the enactment, first, of a free trade, and then of a protective policy, causing fluctuations and temporary embarrassment, but never forcing the great mass of the people to give close attention to the matter. Under the pressure of our present debt and the existing system of taxation, it is to be feared that the time has come when the people will be forced to learn wisdom by the hard teachings of adversity.

In the collection of revenue, the Government simply takes a portion of the annual product of the country for its own use, — that is to say, secures to itself a portion of the result of each man's labor or effort. The method adopted is to impose a tax either under the name of "internal revenue" or of "tariff" upon the commodities consumed by the people. Hence arises the axiom, that "the consumer pays all taxes," — an axiom very likely to mislead, unless qualified by the statement that consumption depends upon production. If each person worked for himself alone, raising

his own food, making his own clothing, and never exchanging the result of his labor or effort for that of another, he could only be reached by the tax-gatherer by being required to give up a portion of his product. It is production alone which yields revenue either to the Government, or to the capital by which production is aided and rendered greater; and it is by the increase of production only, that we can bear the burden which the consumption or destruction of the war has imposed upon us.

To allege that the consumer pays all taxes leads to an utter absurdity, unless qualified by the statement, that the consumption of one commodity, not produced by the consumer, is only rendered possible by such consumer producing or aiding in the production of some other commodity which he can give in exchange for it; and it matters not to him whether his proportion of the taxes is levied upon the article which he consumes, — let us say upon his tea, — or upon the article which he produces, — say upon his wheat. In either case, he simply gives to the Government a certain portion of the result of his labor, — he either pays a higher price for his tea or he has less money from his wheat wherewith to purchase tea; but, if he had not produced at all, or had not by the use of his capital aided or caused some one else to produce, he would have had neither tea nor wheat, and could therefore have paid no tax.

The problem therefore is so to levy the taxes as not to impede production. It will be maintained hereafter, that capital can only be taxed through its income, without causing great disaster, and that the income of capital is a certain share of the product of labor; and therefore, in one sense, the income itself is a tax levied upon labor by capital. If this proposition can be maintained, then the tax levied by Governments upon the income of capital is ultimately a tax upon production, or the result of labor.

In this connection it becomes interesting to know who are the capitalists and who are the laborers, though I do not mean here to intimate that there is any natural antagonism between the two. On the contrary, there is no finer example of the real harmony of interest in the universe than the law so well enounced by Bastiat: "In proportion to the increase of capital, the absolute share of the total product falling to the capitalist is augmented, and his relative

share is diminished ; while, on the contrary, the laborer's share is increased both absolutely and relatively."

If there is any natural antagonism between capital and labor, then a man must often be his own antagonist ; for many men, — I may say most men — are both laborers and capitalists. The common laborer who owns his tools is to that extent a capitalist as much as the mill-owner running 20,000 spindles. He who works the spade with his hands is no more a laborer than he who directs the spindles with his head. Each is working for the general good, although his own aim may be selfish ; for one is adding to the abundance of the food which we eat, and the other of the clothes we wear.

It is only when the Government interferes with natural laws, and, discarding the only legitimate object to be considered in the imposition of taxes, undertakes, under the name of revenue laws, to give a bounty to certain interests, that antagonism between labor and capital begins, and this antagonism is more properly between a class and the mass of the people than between labor and capital.

I have said it becomes interesting to know who are the laborers and who are the capitalists in the common use of those terms, and we may approximate to this by considering the number of persons in the United States who pay a tax upon an income of over six hundred dollars per annum, — upon which point I have obtained the following statement from Washington.

TREASURY DEPARTMENT,
OFFICE OF INTERNAL REVENUE,
Washington, February 7, 1867.

SIR: In reply to your letter of the 31st ult., requesting a statement of "the total number of persons paying an income tax, and the amount of income represented," I have to say that the total collections returned on income for the first six months of the current fiscal year amount, at present, to \$47,413,075.99. Full returns from a few districts, for those months, have not yet been received. Of this amount the sum of \$20,678,035.10 was returned on income over \$600, and not over \$5,000 per annum. \$24,972,677.83 on income over \$5,000, on excess over \$5,000, and \$1,762,363.06 on income from dividends, and addition to surplus funds of Banks, Railroad Companies, etc.

The amount of income represented by the above tax is \$698,534,741.

The total number of persons assessed for income on the annual list for 1866 as returned by the Assessors of 221 Collection Districts is 458,157. A few unimportant districts are yet to be heard from.

The receipts from income for the current fiscal year will, probably, not exceed \$50,600,000; and full returns from all Collection Districts will, doubtless, show that it was paid by not more than 465,000 persons.

Very respectfully,

THOMAS HARLAND,

Deputy Commissioner.

MR. EDWARD ATKINSON, Boston, Mass.

It thus appears, that, out of thirty-six million people, less than half a million have a surplus above six hundred dollars a year. It follows, that the great majority spend all they earn; and, if their cost of living is raised by heavy taxes, their wages or earnings must be raised also. It would then appear certain that any artificial stimulus given to any one branch of industry, by means of a bounty granted under the name of protection, would soon cease to be a benefit even to the protected interest,—such bounty ultimately resulting in a rise in wages equal to the bounty imposed.

I shall here be met by the question, Is not a rise in the wages of labor a benefit to the laborer? And I answer, Certainly not, if such rise is in consequence of the increased cost of living, and not the result of increased ability to produce on the part of the laborer. This question would not be asked if the function of money, in which wages are paid, was more clearly understood. If money is the end for which we labor, then any policy which will cause the rate of wages to be high is to be advocated as the best: but, if money is simply an instrument, by which we measure the result of one man's labor, when we compare it with the result of the labor of another, or a commodity in which we store up in a convenient form a portion of the result of our efforts, in order that we may at some future time command the equivalent service or labor of another, then it is not the amount of money or wages, but the service which those wages, or that money, will command, which is the end for which we work; and we may readily find that low wages are better for the laborer than high wages,—that they may yield him more immediate comfort, and a larger surplus to take the form of capital.

Upon one of the largest railroads in this country, the principle has been established, that the wages of common laborers must be equal to the cost of one barrel of flour per week ; or in other words, the directors have discovered, that flour is a better standard by which to measure the value of the time of a common laborer than paper money, and that the various commodities which a common laborer must have, are gauged by their relation to the value of one barrel of flour per week. Or, to state the proposition in another form, that if each laborer were engaged in the production of flour, at the rate of one barrel per week, he would, in exchange for the flour, be able to procure the exact amount of shelter, clothing, and other articles of food which he needs, and which are sufficient to induce him to labor.

Now what matters it to that laborer whether the value of a barrel of flour be expressed at eighteen dollars in paper, or thirteen dollars in specie, either of which sums would represent a high rate of wages, if the barrel of flour, or the eighteen dollars, or the thirteen dollars will only procure for him a bare shelter and subsistence?

Flour has lately been eighteen dollars per barrel, and the rate of wages on that railroad eighteen dollars per week. Let us suppose flour reduced to eight dollars per barrel, and all other commodities reduced in the same proportion, but that the wages of the laborer on that railroad are ten dollars per week ; can he not then save two dollars per week at the low rate, where he could save nothing at the high rate? Has not the lower rate a higher value to him?

I believe this is precisely the difference existing between the position of the skilled artisan of England and that of the skilled artisan in this country at the present time. In England the rate of wages is nominally much lower, but a suit of strong fustian clothing can be purchased for one pound or five dollars. Beer costs three half-pence a glass, or three cents. Meat is not higher than in this country, and house rent is less ; and, notwithstanding our great natural advantages, skilled laborers are said to be rapidly returning to their homes in Europe.

What we want is an abundance of the things which money will buy, not abundance of what is called money.

Is the dry goods dealer rich, when he has no cloth upon his shelves, even though he have a hundred yard-sticks?

Is the grain dealer rich, when his lofts are empty, even though he have a hundred bushel-baskets?

Is the grocer rich, when he has no sugar or salt, but only a counter covered with pound weights?

Is the shipwrecked mariner rich, if flung upon a barren rock with a bag of gold, but no food or water?

Are the United States rich, when they are ceasing to produce as many yards of cloth, as many bushels of grain, as many commodities as they formerly did, in proportion to their population, because they have 900,000,000 paper dollars wherewith to measure the value of the decreasing cloth and grain and commodities?

To return from this digression. It has been proved that there are not more than 465,000 people who pay an income tax; let us admit that 135,000 avoid payment who are liable, and we have 600,000 heads of families; multiply by 5 and we have 3,000,000 people out of 36,000,000, who have a surplus, or who may be called capitalists in the ordinary use of the word. It would be interesting to know how many of the lobby-members, so called, who have been or may hereafter be in Washington to influence legislation upon the Tax and Tariff Bills, will represent the 3,000,000 who are capitalists, and how many the 33,000,000, who are not.

Yet the latter are the producers, to a far greater extent than the former, and therefore are the tax-payers to a far greater extent. Again I must state that I imply no natural antagonism between laborer and capitalist; it is the law of God that all interests are harmonious; it is only our ignorance which produces antagonism. Neither do I impute to all the lobby-members purely selfish motives, or a desire to secure their own ends at the cost of the general interest. I only wish to point out, that there is a great preponderating mass of industrious laborers for whom no lobby-members will appear, who may not now be able to influence legislation, and who may now be unenlightened, but upon whose comfort and prosperity unjust laws may press heavily, and whose instinct, if not whose reason, will cause them to sweep from power the men who, even by mistake, shall oppress them with special laws, by which.

there shall be added to the oppression of the taxes a system of bounties to special interests yet more oppressive than the taxes themselves.

It has been said that no great abuses were ever reformed by the voluntary acts of legislators: all great reforms have been accomplished, either by the pressure of public opinion or by the revolutionary acts of the people; and most, if not all, of these reforms, have consisted simply in removing the impediments which law-makers have placed in the way of the natural development of the people. To establish justice is the function of law-makers, and only so far as they believe justice requires the enactment of laws giving a direction to labor which it would not otherwise have taken, can protective or bounty laws be defended.

I am satisfied that justice to the whole people never required such laws; but, since they have been enacted and have caused our industry to be directed from its natural channels, while justice requires the ultimate repeal of all such laws, it equally requires that such abrogation shall be reached by slow and cautious measures, and with fair warning to all who have been induced to employ or invest capital in consequence of their having been enacted. The capital of the community being the fund from which wages are paid, it is of equal, perhaps of greater importance to the laborer than to the capitalist, that capital should not be destroyed by sudden changes in the laws. Because we have not accumulated as much capital as we might have done, under a natural system, is no reason for destroying by sudden changes what we have accumulated.

We may be sure, that, on whatever platform the members of any Congress may have been elected, they will enact such laws as the opinions of their constituents shall demand. It is given to but few men to become leaders and to mould opinions: the average intelligence of the people dictates the policy of those who govern, or are said to govern; and upon the enlightenment of the people depends, with rare exceptions, the wisdom of the legislators. There is not in the present Congress a single man who has proved his ability to lead public opinion in regard to the systems of protection and free trade by showing first that he could impress upon them an intelligent conviction of the truth of his premises. The Morrill Tariff, so

called, and the subsequent acts, are purely empirical measures which will not bear the test of investigation upon any theory whatever.

Mr. Wells's bill was not claimed, even by himself, to be anything but a temporary device, well adapted to meet the abnormal condition of a paper currency,—a condition which renders any permanent legislation for the collection of revenue practically impossible.

His report, on the contrary, contains an amount of information such as has not before been placed before the people, and statements of facts which are indispensable to sound legislation. His convictions are evidently changing somewhat, and I believe that a man of his ability, and with the opportunity which he has for observing the evils of legislation for special interests, cannot long avoid being a convert to the doctrine that free trade and not protection is the proper basis from which to enact a tariff law for the collection of revenue.

I do not mean to assert, that there are no men in Congress capable of leading and moulding opinion upon these matters, but the whole attention of those who are thus able has of necessity been given to questions which, up to this time, have been of more vital importance; and it is well that it is so, even if a temporary check be given to our material prosperity. Far better the rule of a Republican party, true to freedom but mistaken in its revenue policy, than of a sham Democratic party, false to freedom, but placed in power by means of correct views of the revenue question.

There are three fundamental premises which must be fully understood before any correct deductions can be reached upon the subject of collecting revenue.

First, That all taxes, either direct or indirect, are levied upon and collected from production,—production being the result of labor; and that labor will be more or less effective according to the amount of capital by which it is aided or supplemented.

Second, That “tariff” is another name for “tax,” and that a tax of any kind can only be more or less of a burden upon the people who pay it, and cannot in the nature of things be a benefit to them.

Third, That money is not an end, but only a means to an end, and that even gold and silver money is only useful up to a certain amount, which will define itself, if left to natural laws ; from which it follows, that a country may be guilty of as great folly in the enactment of such laws as shall cause an accumulation of specie within its borders more than sufficient for its use, as the miser is guilty of when he hoards gold in a strong box.

Before we consider the first proposition, it may here be well to define what is meant by labor. Its technical meaning has come to be simply physical effort. I use it in the larger sense, in which is included any effort, either physical or mental, by which the gifts of God are moved into form for human consumption. Economic writers have sometimes made the statement that all that we do is to move things. We move the soil and we move the seed, but Nature *gives* the harvest. We move the wood and the stone, forming the dam, and we move the wheel into position ; but Nature, or the God of Nature, *gives* the water and the law of gravitation. And when we have moved things into what we call permanent form, they become capital, — such as houses, or mills, or improvements upon land, or gold and silver money ; but still, effort, movement or labor must be applied to keep the mills in motion, to work the land or the mines : capital renders labor more effective, causes it to yield a larger product, but can never take its place.

It seems but simple justice, that the capital of the country should bear the largest share of the taxes ; but how can it be reached ? An arbitrary division is impracticable, and a tax upon the income of capital is simply a share of the product of labor, which product the use of the capital has increased, not thereby displacing the labor. Labor, after all, gives the result ; and a tax upon the income of capital is simply a tax upon the labor or effort which capital has caused to be put in motion, and thereby rendered more effective.

Is not the income or profit of capital a charge made by capital for the service which it renders in causing labor to be more productive ? When capital took the form of a spinning jenny with eight spindles, and displaced the old spinning wheel of one spindle, it rendered service to labor by making it possible for labor in one

hour to produce eight times as much as it did before. For the service of one hour of the spinning jenny of eight spindles, the laborer may pay to the owner the product of four spindles, and yet have four times as much left for his own use as he would have had by continuing to use the single spindle. The business being very profitable, the capitalist will continue to build spinning jennies until the demand is fully supplied; but, if you take a portion of his income by a tax, the rate at which he will build spinning jennies is retarded, and his share of the product is maintained much longer at a high point; so that ultimately the labor will have paid the tax in the form of a higher rate of profit upon capital than it could otherwise have commanded.

Capital is of no use to the owner, when hoarded: it must be put into some form in which it can render a service to labor; and, as wealth or capital accumulates in a geometrical ratio, while population or labor only increases in an arithmetical ratio, the rate of interest or profit which capital can command must be continually less and less, if the whole matter is left to natural law. On the other hand, labor may continue to work wearily at the spinning-wheel of one spindle, until supplemented by capital in the form of a jenny, and will do so, unless some one, by an effort of invention or superior industry, provide such a machine.

It is a well understood rule, that the rate of interest or profit which capital can command of labor, for its annual use, is in the proportion which accumulated capital bears to the number of persons desiring its use; and their desire is in proportion to their intelligence and education. This law which regulates the profits of capital is fully proved by the high rates of interest always prevailing in new countries, and the low rate in old countries in which the accumulation and use of capital are both fostered, as in England.

Now since the avails of the taxes are mainly consumed, and not added to the aggregate of accumulated capital; and since the rent, interest or profit of capital is maintained, even by the imposition of an income tax, at a higher rate than it otherwise would be; and since by this retardation of the accumulation of capital, labor is not supplemented by as many or as good tools as it would otherwise be, it follows that taxation in any form, even that of an

income tax, is mainly a burden upon labor, and not upon capital, which is the result of labor already expended.

The only manner in which accumulated capital could therefore be reached would be by an arbitrary division of such capital at a given time, in whatever form it existed, whether as money, mills, improved lands or railroads, etc.; but such arbitrary re-division of capital is impracticable upon any principle of equity, and to prevent even this being an injury to labor, even if it were practicable, it must be proved that the recipients would maintain it as accumulated capital, and not immediately consume it or what it would purchase.

I think it cannot be denied that all taxes are collected from the product or result of labor of each and every year, and are paid mainly by those who produce, and not by those who live upon the income of capital already accumulated; but I am very far from excluding from the class of laborers or producers the owners of capital who give their time and attention to the use of their capital; they are among the most effective laborers and the largest producers.

Neither do I intend to deny that capital can be reached by taxation, but only to define the usual effect of taxation. It is proved by the records of history that in all cases where the Government of a country has by taxation taken a portion of the capital of the people, the result has been disastrous. This will be evident to any one who fully appreciates the fact that the accumulated capital of the country is the fund from which all wages are paid, and when taxation has exhausted the income, and begins to impair the principal, of course nothing but injury can ensue to those who are employed and who receive wages.

Capital can be reached by an arbitrary but unequal assessment upon the principal, and the passage of the act by which paper money was made a legal tender, was of this nature. The effect of this act was to seize upon a portion of every debt due; it was a confiscation of a portion of the capital of every creditor; and it should have been called "An act for the collection of a forced loan." As I have elsewhere said, it may have been necessary, but I think that although it was a tax upon capital, it has thrown a heavier burden

upon labor than if it had not been adopted and the product of the country had been secured for war purposes in some other manner.

Again, the imposition of a tax upon incomes may not retard the accumulation of capital if it induces greater economy in the recipient of the income. If the capitalist, in consequence of the income tax, saves the amount by abstaining from luxurious expenditures, then the amount of the tax never falls upon labor; there is doubtless a certain amount of economy induced by our existing income tax. I have elsewhere stated that if fairly adjusted, an income tax is one of the most expedient methods for obtaining revenue, because it is very far removed from labor, and the retardation of the accumulation of capital is very slow and almost imperceptible.

It is absolutely necessary to discuss this branch of the question, although it may be urged that there is danger of arousing prejudice against capital. I do not share in any fear of this; our native population is too intelligent, and too well informed to cause any serious danger to be feared from such prejudice. If this were not so, our town-meeting, instead of being the most economical organization for administering municipal affairs and imposing taxes, would be the most lavish and wasteful. I suppose there are very few town-meetings held in this vicinity which might not be easily controlled by residents of the towns who pay no property tax.

I have never seen any serious danger to property, even from the large foreign element in our population, so long as that foreign element acts in and through the town-meeting. In the cities, it is doubtless an element of danger until enlightened by more than five years' residence. But if we consider this matter fully, we find that the city organization is much less democratic than the town-meeting, and we have the best proof possible of the success of absolutely democratic institutions, when we prove that, by means of the town-meeting, which is absolutely democratic, we have the safest, purest and most economical management of municipal affairs, including taxation.

The drones of society, much more than the paupers, are the greatest burdens upon the community; using neither their hands nor their heads, making no effort by which they render a service or add a single product to the general stock, they waste the substance

of the people. If the property of such men could be reached by heavy taxation, it might well be justified; but they are comparatively few in number, and must be treated as one of the results of imperfect education and of the low state of our civilization.

The vampires who gamble in time contracts in stocks, and under the name of "corners" steal the contents of each others' pockets, or pluck their silly victims, might well be assessed; but, as their capital commonly consists of brass, the result of the assessment would hardly pay the cost.

The avaricious man who gives his whole time and thought to the accumulation of capital, is working for the benefit of the community, as he is adding constantly to the tools by which production will be increased, while the spendthrift is an injury to the whole community, because he is, while merely spending his income, really wasting the proceeds or results of other men's labor. Hence the great and permanent injury to the country from the extravagance of the present day, following the sudden and easily acquired fortunes which have resulted from the depreciation of the currency. Every man who is to-day securing an income by methods which do not tend to increase the aggregate production of the country or otherwise render a service to the people, and who, by means of an inconvertible paper currency, is producing changes of value in commodities not warranted by the relations of supply and demand, is stealing the product of other men's labor. The people have, by authorizing the law by which paper money was rendered a legal tender, created a tool with which skilful men can filch from them the products of their labor without rendering any equivalent service.

This law may have been necessary, may have been a part of the destructive need of the war, and may have saved the people from worse evils; but let us call it by its right name; it was simply a law for the collection of a forced loan. The legal-tender note, or lawful money, as it is called, does not represent real money. Real money must contain, *in itself*, two properties: first, *measuring power*; second, *actual value*. Coined money possesses measuring power by virtue of the stamp impressed upon it by the mint, which stamp is simply a guaranty that each coin contains a certain num-

ber of grains of gold or silver ; but it also possesses actual value because it represents the past labor or effort of the men who have been engaged in discovering, opening and working the mines and separating the metals from the ore.

Paper money possesses measuring power by virtue of the declaration of the Government that it is a dollar, and possesses value only because the people have confidence that it will sometime be paid in coined money. The legal-tender note is really the representative of a forced loan, and as such should be paid in coin or converted into bonds bearing interest as soon as possible ; it represents not value or the result of past effort or labor, but debt, or the promise of payment from the result of future labor.

One of the injuries to the community arising from the use of inconvertible paper money as a measure of value, is in the fact that as it has no uniform value in itself and for itself ; every one who receives it seeks to get rid of it as soon as possible ; this leads to the willingness to pay a little higher price for articles of real value and stimulates exchange or speculation in commodities. From this arises a greater apparent profit to the individual in the exchange of, or speculation in commodities, rather than in their production, hence the community suffers. Production supports the whole community, including those who conduct the necessary exchanges, and when the number of the latter is greater than the absolute need, the producer is supporting an unnecessary number of agents, and the rents of stores and shops rise in an undue proportion. The business portion of the community are simply agents acting for the great mass to exchange their products and their warehouses are simply their tools, both useful when they promote cheapness of exchange, harmful when they increase the cost of exchange above the absolutely necessary point. The desire of every man to rid himself of paper money, or of bonds of the Government which pay him no interest, stimulates an unnatural exchange, advances prices, causes rents in cities to rise, repels young men from productive labor, and increases the number of agents or business men. Hence the absolute need of a steady withdrawal of legal-tender notes, and the return to coined money which has value in itself, or its representative, paper money convertible into coin on demand.

During this withdrawal, what is called business will suffer ; men who are in debt may fail but real prosperity will increase, because, by this very process, production will be enhanced. Hundreds of persons will be thrown out of employment, and forced to leave their business of exchange and seek employment in the fields or the work-shop. Much real hardship will ensue ; because, if we have broken a great economic law in declaring that to be real money which is not money, the innocent must suffer with the guilty, precisely as in the case of the infraction of a great moral law, the criminal causes misery and suffering to others than himself.

The wisdom and statesmanship of the legislators will be tested by their success in solving this difficult problem : in causing the change from fictitious to real money to be accompanied with the least disaster possible. If an unwise or mistaken course is followed, production may for a time be decreased, and the difficulty sought to be avoided may be aggravated.

As the return to specie payments must be accompanied by a steady reduction of the prices of all commodities to a uniform or specie standard ; and as it is evident that the general interest demands the enforcement of this return by the gradual but steady withdrawal of all the legal-tender notes or evidences of a forced loan, it would seem fit and proper that Congress should permit the community to return to a specie standard voluntarily, by rendering legal all contracts made in specie. Why should the Government arrogate to itself the right to make contracts payable in gold, and not permit the people, whose servants the members of the Government are, to do the same thing ?

If such a law were passed, all contracts made on long time would be made payable in gold, and one of the great impediments now existing to the erection of houses, mills, and the like, and to the construction of railroads, would cease ; and all contracts for the purchase or sale of foreign commodities would be made payable in gold (as many now are, without any warrant in the law, but dependent upon the honor and integrity of the merchants for their fulfilment, and not upon the law).

I have elsewhere said that gold will flow to, or remain in that

country which has a use for it. The product of our mines is \$100,000,000 a year and if we could retain this sum annually for four or five years, it would furnish all the currency we require. We certainly shall not retain it until we have a use for it. The Government has a use for gold, and therefore demands it in payment for duties and gets an ample supply. If the people begin to use it as they will when specie contracts are legalized, then it will remain here; the demand will induce the supply.

And when it shall become evident that to conduct transactions upon a gold basis is better for the purchaser, since when the standard is uniform there can be no additional profit charged by the seller for the risk of variation, will not the use of legal tenders partially cease? What will they then be? No longer *money*, but bonds bearing no interest, which the holders will insist upon converting into bonds bearing interest, even at a low rate. They may depreciate, or in common language, gold may rise, but then the more inducement to the community to conduct its transactions in gold and not in currency. The more they depreciate the more will be the anxiety to convert them into bonds bearing interest, instead of the unwillingness to do so now manifested.

I believe that the passage of a law for the enforcement in specie, of contracts made payable in specie, would hasten the general return to specie payment, and that it would be one of the natural methods, because it would simply remove a legal obstacle now standing in the way of the free action of the people. Such a law would permit old-fashioned people, who prefer stability and a small profit, or a fair return for service rendered, — to gambling and speculating, — to conduct their business in such manner as would secure their desire.

(By speculation, I mean rash transactions based on chance, not the wise foresight of the true merchant who buys heavily to meet a probable scarcity, thereby equalizing prices and rendering a valuable service to the community.)

Another illustration of the fact that taxation is paid chiefly by labor, and not by capital, may not be amiss.

Let us suppose a community of five men settled upon a given tract of land, near which is a city ready to take any farm product at a uniform price. The men have each an equal amount of

capital, represented by a spade. A, B, C and D raise just enough to feed themselves, and to procure in the city clothing and fuel; E, however, by working harder, and with more intelligence, and by denying himself some portion of the food and clothing which the others consume, is enabled to exchange a portion of his product for a horse and plough. He has now more capital, but only enough for his own use. The next year, he has surplus product enough to procure another horse and plough, but cannot use it himself; he therefore offers its use to A, B, C and D, and the one who will give the largest proportion of his crop, say D, gets it, — the competition is four for one, and the rent high. The next year, E has not only the surplus from the horse and plough used by himself, but the rent from D, and would purchase two more ploughs, and in such case he would have three ploughs to let; there would be four competitors, and it would be the best use of his capital, — the competition would not be as great as when it was four for one, but it would still be four for three; the aggregate rent would be larger, but the relative rent smaller. But now comes in an income tax, and takes from E such portion of his farm product as would buy one plough; and the officers of the Government consume such product, — the avails of the tax. E can only purchase one more plough, making two instead of three to let, — the competition is four to two, instead of four to three, as it would have been in the absence of the income tax. C and D bid high, and supplement their spade labor at the cost of a heavier share of their product; E gets, not as large an aggregate, but a larger relative rent for two than he would have for three; C and D are poorer than they would have been; and A and B remain spade laborers.

In the absence of the income tax, B, C and D would each have had a plough at a low rent, and A would have been the only spade laborer. The next year, all would have had ploughs, and some other use for capital would have had to be found, — thus inducing enterprise. Then would come the natural time for E to become an employer, and to hire men from elsewhere to come in and use his ploughs, since no one will hire them and his market will still take all farm products at a uniform price, — the inhabitants of the city having increased as fast as the farm products increased.

I have defined capital to be the surplus result of labor, not con-

sumed, but put into a form for further use. The bonds or evidences of debt of the country must not be confused with the capital of the nation; they may represent capital to an individual, but to the community they can only represent a burden.

The utter ignorance of this economic law was not long since exhibited by the publication of a pamphlet entitled, "A National Debt a National Blessing." The same ignorance is constantly to be observed in the Congressional debates upon the currency, which would be amusing, if they were not dangerous; we may however feel tolerable assurance that there is wisdom enough to resist any further inflation. Those who propose the issue of more legal-tender notes are rapidly losing the confidence and even the respect of the community, and must soon cease their dangerous effort, unless they wish to be held responsible by an outraged community for attempting to steal from labor its reward, and to be esteemed not only wilfully ignorant, but intentionally criminal.

The absurd dogma, that a national debt is a national blessing hardly needs notice, yet it may not be amiss to give a word to it. During the war, a portion of the productions of the country were taken and used. For what? For destruction not only of the products thus taken, but of other accumulated capital. What was given for such productions? An evidence of debt, — the interest, and finally the principal, of which must be gathered from the future production of the people. Who holds these evidences of debt? A portion of the people who are thereby enabled to live without work, on an income derived from property, which, while it represents property to the owner, represents only destruction of capital to the community.

Suppose a town wishes to build a school-house, and it employs one man who cuts and frames the timber, makes the bricks and erects the building, receiving while thus employed his food and clothing, and at the completion of the building an annuity of three hundred dollars as long he lives, on which sum he can live without further work; and suppose that he chooses so to do. The town has the service of the school-house in which its children are taught and thereby made more effective in their work; their productive capacity is so much increased by the service rendered them by the school-

house as to give them six hundred dollars more per year than they would have made without it, then their gain is three hundred dollars above the annuity. But suppose the school-house is destroyed by fire the day it is finished: the annuity remains, and the man who receives it is as much a burden as if he were a pauper or a cripple; he lives by the labor of others, consuming only and not producing. Such is the evil of debt incurred for the purpose of war. Yet active, destructive war may be — as was our late war — a vast benefit; because it destroyed slavery, a condition of passive but destructive war of the most injurious kind, far worse in its effects than the active war by which it was destroyed.

The result of slave labor has not been, and cannot be the accumulation of any large amount of capital. It yielded a certain product at the cost of the natural fertility of the soil, — witness the testimony of one of the most intelligent southern writers, Dr. Cloud of Alabama, who says, “If the country or the climate has been cursed in our appearance as planters here, it has been in the wasting system that we introduced and continue to practise.” Then after defining the great natural advantages of Alabama, he continues, “If this condition of things be fact, why is it that we find so many wealthy cotton planters, whose riches consist entirely of slaves and *worn-out* plantations?”

There is a great prejudice against having our bonds held abroad, but I think this is a very ignorant prejudice. It is much better that the bonds should be held out of the country than in it, if the holder intends to live upon the interest. Let me illustrate.

Suppose a community of six persons, five of whom are employed for a year in draining a swamp, while the other one raises the food on which the six live, — he having capital in the form of farm-tools, horses, etc. For his services in raising food, he receives a bond of \$1,000, the interest on which is to be raised by a tax on the whole future product of the six; but the capitalist who holds the bond can live on the interest, and refuses to produce anything more: then have not the five to support six? On the other hand, the capitalist sends the bond to another community, and procures for it a thousand dollars worth of better tools than he had before, and continues to work: the interest is still only sixty dol-

lars, but there is the product of six plus the product of the improved tools to assess the tax upon. The interest is the same but the product greater.

If we send our bonds to Europe, and get for them, as will hereafter be proved, five parts good tools, or of the comforts of life to one part of luxuries, we make a good bargain, and are much better off than if we retained them here, and, by so doing, released a part of our own people from work.

But a tax of a given amount, even for interest on bonds, may be either a burden too grievous to be borne, or it may be slight in its effect, the given amount being the same in each case,—upon which point some further remarks will be made hereafter.

The greatest progress of a country will be secured by the application, on the part of the people, of the greatest number of hours of labor, consistent with health and education, to the production of raw materials, yielded by the soil or the mines, or in preparing such raw materials for use by the process called manufacturing. We may be sure that God has indicated the direction in which such labor can be expended with the best results, by giving to different countries different conditions of soil and climate; and that to interfere with the natural distribution of labor in accordance with these great laws, as has been done by all so-called protective legislation, is to cramp civilization and prevent the spread of Christianity throughout the world.

Commerce is the most effective agent of civilization, but protection, if carried to its legitimate result, would cause each nation to satisfy, as far as possible, all its desires within its own limits, and there could be no foreign commerce.

To illustrate this point. The Kaffir of South Africa was formerly a savage warrior: he is now a peaceful shepherd in whom some of the desires of civilized life have been developed. How has this come about? By the desire of the civilized men of Europe and America for a kind of wool which the climate and soil of South Africa will produce. It happens, that, upon the hills of South Africa, wool can be raised with no labor except that of the shepherd to tend the sheep and the annual shearing, but the wool is absolutely useless in that climate. On the other hand, wheat, tobacco,

butter, cheese, iron-ware and tools cannot be raised or made there at all. What has happened from these conditions? The first settlers tempted the Kaffirs to become shepherds by offering them good bread, butter, cheese, iron, and other luxuries hitherto unknown to them, but yet real necessities for the full development of the manhood in them. Europe and America took the wool and gave the wheat.

But now the United States say, or rather Ohio says, We can raise all this wool. True; but instead of expending only the labor of a Kaffir who can do nothing else, we must build great barns to protect our sheep in our cold winter, we must employ farmers to raise hay and roots to feed them; and we must expend two days labor of a civilized man, where the half-civilized Kaffir need expend but one, — yet we ought to be protected in our labor: we, the educated, civilized men of Ohio and Vermont and Massachusetts need to be protected against that poor, half-civilized creature, — we are afraid of him. God has given him more sunshine and a better position than ours, and, if he advances, we shall be degraded.

Suppose Europe were equally afraid of the poor Kaffir, and protected itself against his wool; — what would become of it? No one would give him wheat or any other commodity for it; he cannot eat it or wear it, and it is the only thing he can raise; if he cannot sell it, he must cease work, cease progress, relapse into barbarism, — all the missionaries in creation couldn't save him. Yet if protection against the Kaffir's wool is good for America, it is good for Europe and ought to be adopted. Is it not true, then, that the logical result of protection is to cramp civilization and check the spread of Christianity?

But, says the advocate of protection, when driven from the prohibitive doctrine, we only want such incidental protection as will come from a revenue tariff. The answer is that there can be no such thing as protection in a true revenue tariff, because just so far as a tariff stimulates the home production of the commodity upon which the duty is imposed, just so far it prevents the importation of that commodity, and therefore it so far fails to yield revenue. A *true* revenue duty must always be at a rate less than the one which will carry the cost of the commodity so high as to induce its production at home.

There can, it is true, be no tariff, except one that simply imposes duties on commodities which cannot be produced at all in the country which imposes it, without its affording some stimulus to the production of articles which would not otherwise be produced, and this is the protection incidental to a tariff. But it is a fault in the tariff as a revenue measure, and not a merit.

Take the case of the Kaffir's wool again. Ten cents worth of wheat will buy of him a pound of wool. The Ohio farmer can furnish ten cents' worth of wheat, we will say, by one hour's labor; but a pound of wool will cost him two hours' labor, or twenty cents.

Now, if you put a revenue duty of eight cents on the wool raised by the Kaffir, it will still come; as its total cost in the United States will still be only eighteen cents. The Ohio farmer will still make wheat to exchange for it, only we shall get less wool for the wheat; but, if you impose a duty which involves any incidental protection or any other kind of protection, it must be over ten cents so as to raise the cost of the Kaffir wool to over twenty cents. Suppose you put the duty twelve cents, then the Ohio farmer is protected, and can make it for less than its cost plus the duty; the Ohio farmer gives up raising wheat, but expends twice the labor on wool; commerce with the Kaffir ceases; woollen cloths cost double; the Government has no revenue; the civilized man has put his two hours' labor against the Kaffir's one, and by means of protection has won the game; the Kaffir relapses into barbarism, and that is the end of it: but is the civilized man any better off than he was before? He has now to pay a direct tax for the support of the Government and has less time to work it out than he had before. And this leads us to the second point, viz, that a tariff is a tax under another name, and that a tax of any kind can only be more or less of a burden upon those who pay it.

I may be more stupid than other people, and, at the risk of being considered so, I must say that the common arguments used in regard to a tariff, by the advocates of what is called protection to American industry, would lead an ignorant man to suppose that the Government was conferring a great favor upon the people by making the commodities which they wish to purchase of foreigners cost them more than the foreigners are willing to sell them for.

The first question to be asked is, What is the object of a tariff? To which question I think very few men would make the one answer which is complete, viz, to raise a certain amount of money with which to pay the expenses of the Government. Very many would qualify this answer by adding, "To raise money, and to develop the resources of the country." But let us look a little deeper. Would any nation impose a tariff of duties, if it had no expenses to meet, if it had no money to raise? The answer is simply, No: of course not. Why not, if by a tariff the resources of the country will be developed? Can any one reply to this?

Next, let us examine into the nature of the expenses of Government. They are, 1st, The support of the army and navy. Are they productive? Not at all: their purpose is war, which is destruction. 2d, Interest on the national debt. Is it productive? No; it represents only the destruction of capital caused by the late war. 3d, The Pension List and the expense of the civil service. Are they productive? Not at all: the pensioners are still representatives of the destruction of war, and the civil officers of the Government, while necessary to give organization and protection to production, do not themselves add anything to the aggregate of material product, but simply consume a portion of it.

All the material of war, and all the dwellings, food and clothing of the officers of the Government, must therefore be provided by the labor of the people. "But," answers some one [who is still in the state of haziness which obscured the vision of the writer for a long time], "if all these expenses are paid by a tariff, how are they provided by the labor of the people?" Because all foreign commodities imported are the result of the labor of the people of foreign countries, for which we exchange commodities which are the result of the labor of our own people (two of our commodities or products being gold and silver); and, if the Government adds to the cost of the foreign commodity by the imposition of a duty, it will take so much more of the home commodity to pay for it. Let us suppose that we can produce a given quantity of wheat with the expenditure of a less number of days' labor than are required in England, and England can produce a given quantity of iron with a less number of days' labor than are required in the United States: of course, we

shall exchange wheat for iron. The Government then imposes a duty upon iron, its object being to procure money for the payment of its expenses. If any revenue is expected from the duty on iron, it must represent less than the difference in the labor required in England to produce iron as compared with the labor required in the United States.

One of the great articles of production of Pennsylvania is wheat; the annual value of her wheat is more than the annual value of all her iron and its manufactures. In Pennsylvania, nature has indicated that wheat and other grain would yield the largest result for the least labor, and that grain should be the chief product, until such time as the general supply had become so great as not to yield so large a return for the labor employed as would come from working her vast deposits of iron.

At the time Pennsylvania was settled, England had already established iron works, because Nature had indicated iron as one of the natural products of England, by placing there great beds of coal and iron, and but a comparatively small area of arable land.

The farmer of Pennsylvania wants iron, which exists in its crude form under his own farm. England wants wheat. Let us suppose that, under the circumstances as they are in Pennsylvania, the farmer of Pennsylvania can produce a ton of wheat with twenty days' labor and a ton of iron with thirty days' labor, and let us suppose that, under the circumstances as they are in England, the Englishman can produce a ton of iron with twenty days' labor but it takes him thirty days' to raise a ton of wheat.

The Englishman wants wheat, and the Pennsylvanian wants iron; exchange is free and the barter is made. It is not necessary to express the exchange in money. It is so many days' labor against so many days' labor. The desires of both are satisfied by an aggregate of forty days' labor, resulting in a ton of wheat and a ton of iron, — each where it is wanted. The element of transportation may be omitted, as the same conditions apply to Canada and the United States, which are only divided by an imaginary line.

But now comes in the Government of the United States and claims a portion of the labor of the Pennsylvanian, — say six days,

and each day's labor is measured in Pennsylvania by one dollar. The Government imposes a duty of six dollars on a ton of iron. But as the ton of iron would cost the Pennsylvanian thirty days' labor, or thirty dollars, he will still give twenty days to wheat, six days to the Government, and import his iron. The Englishman will still expend twenty days on iron and exchange it for wheat.

The desire of the Pennsylvania farmer for iron, of the Englishman for wheat, and of the United States Government for \$6, will all be satisfied by an aggregate of forty-six days' labor.

But the great iron resources of Pennsylvania are not protected; they must be developed, and Government is induced to put a protective duty of \$12 on a ton of iron: but \$12 represents twelve days' labor for the Pennsylvanian, who wants iron, and therefore it is better for him to give thirty days to making a ton of iron, rather than twenty to wheat, and twelve to the tax. He does so, and gets his iron. The Englishman, having no market for his iron, and wanting wheat, must give thirty days to raising a ton of wheat. The desires of the Englishman and of the American are both met by an aggregate of sixty days' labor. But the United States has no revenue; it wants \$6, but, having been deluded into imposing a protective tariff, it did not get it, and must now impose a direct tax on the Pennsylvanian equal to six days' labor. The three desires are therefore satisfied only by an aggregate of sixty-six days' labor.

To sum up:

The Revenue Tariff satisfied the three desires with	46 days.
The Protective Tariff, with	66 “
	—
Waste of labor,	20 days.

Disregarding all comity with the Englishman, the Pennsylvanian's desire is satisfied.

And he pays \$6 tax to the Government, under a	
Revenue Tariff, with	26 days.
Under the Protective Tariff, with	36 “
	—
Waste of home labor,	10 days.

Any one who has read Prof. Perry's admirable book will see that I owe this demonstration to him.

If we wish to understand how the great iron deposits of Pennsylvania would be developed in a natural manner, we have to take the case in a little different form. Suppose twenty men working one day can make a ton of wheat and thirty men a ton of iron; with free trade, ten men have leisure,—ten men are unemployed on wheat. Will they not be sure to be trying experiments on the iron which they want? Will they not slowly but surely learn the trade? But, if the whole thirty men are forced by protection into making iron without ever serving an apprenticeship at it, are they as likely to achieve success?

Let me suppose another extreme case: I am a farmer in St. Lawrence County, N. Y., understanding my business; and with one day's labor I can produce a bushel of wheat; in three days' time I, not having learned the trade well, can cobble together a pair of shoes with great waste of leather. On the other side of the river is a poor, ignorant cobbler sent out from England and placed upon a Canada farm; he can make my shoes in a day, but he requires three days to make a bushel of wheat wherewith to feed his family. Shall I not be protected against pauper labor? If I allow his shoes to cross the river, shall I not be reduced to his level? Shall I ever learn shoe-making and become independent of these foreigners who flood us with their shoes, unless Government compels me to employ three days of hard work on shoes, instead of two days of leisure in cutting up leather and trying to learn at my ease?

But suppose this cobbler moves one mile and comes into the United States,—in what respect has his labor changed in its relation to mine? As a consumer he now pays a small portion of the United States taxes, which he must add to the price of the shoes he makes, in precisely the same manner as a moderate revenue duty would have been added to the price of the shoes if he had continued to make them in Canada; but do I any longer demand such a tax upon the shoes made by him as shall force me to make them myself? Far from it, I scout the idea of a heavy tax on shoes, and hasten to avail myself of the benefit of his cheap labor; yet in England or in Canada he was a pauper, or so near it as to be called so.

To be consistent in the doctrine of protection to American labor, we should impose the very highest rate of duty in our schedule,

upon the laborer, and not upon his product ; we ought not to permit this flood of immigration ; these immigrants can make a great many things which we can make ourselves. Let this duty by all means be *ad valorem* and on a home valuation, so that we may as far as possible exclude the most skilful and intelligent workmen ; we don't want the result of their skill when it is exerted abroad, and we shall never prosper if they come here and prevent our attaining it ourselves.

There is danger in the abundance of things. We are flooded with foreign commodities, — flooded with comforts and luxuries. Protect us, in order that we may labor : it is a privilege to labor ; we want to work harder, to get what we consume, than our natural condition requires. Create an artificial scarcity, so that we may enjoy our full right to labor.

Is it the right to labor for which we should so strive ? Is labor the end ? Is it not rather what labor will give us that we seek ? And if we can get what we want with little labor, instead of much, do we regret it ?

But," says the protectionist, " you will never establish manufactures unless they are protected in their infancy." I believe all baby-jumpers and other devices to aid or protect children in their efforts to walk have been discarded, as it has been found better that they should now and then have a tumble, and possibly one occasionally break its neck, rather than that all should grow up with weak legs, even though their legs should get as strong as they ever would have been by the time the children have become old men. And I believe the same process is healthy for infant manufactures as well as for infant children. The most firmly established manufactures in the United States are those which have never been protected to any extent, — such as the various manufactures of wood ; of boots and shoes ; of heavy machinery, such as locomotives ; and, above all, of agricultural implements and tools, of clothing, of sewing machines, and so on, to the extent of the larger part of our home manufactures, some of which have grown up in spite of heavy duties on the raw materials of which they are composed. It may here be well to consider the meaning of the terms " raw materials " and " manufacturing."

In the common use of the words, raw materials are things which

are produced mainly by hand or manual labor, and are therefore true *manu-factures*; but which are changed into finished commodities, not by the hand, but really by machines. We are led to much confusion of ideas by this inaccurate use of words.

We call cotton a raw material, yet to the planter it is a finished commodity, produced by the hand labor of the cultivator of the field, and finished upon the cotton gin.

To the so-called manufacturer, the cotton comes from the gin as a raw material, and in the mill it becomes finished product, as cloth.

But, as cloth, it now goes to a real *manu-facturer*, — the sempstress, to whom the cloth is raw material, and who by hand cuts it and makes it into garments; and the garment is now a finished commodity.

But, as a garment, it goes to the farmer, to whom again it is a raw material, by means of which he is enabled to live in comfort, and without which he could not cultivate his farm. It does not cease to be a raw material and become a *finis*-hed commodity until it is worn out; and even then it becomes the raw material of the paper-maker, and may not reach its final end until it has printed upon it an essay “upon the Collection of Revenue,” and is put away upon a library shelf.

In its course, whom shall we protect or give a bounty to?

The manufacturer of the raw cotton?

The manufacturer of the cloth?

The manufacturer of the garment?

The consumer of the garment?

The paper-maker? or, finally, —

To the writer of an essay “upon the Collection of Revenue,” — who may, at this present moment, really need *personal protection* more than any other?

Shall we not rather seek to collect our revenue as impartially as possible, creating no artificial obstacles to commerce, and leaving each individual to work out his own material salvation, even as he works out his spiritual salvation?

This claim for the protection of infant manufactures never ceases. Under its operation they never seem to grow to manhood,

but the larger they grow the more urgent the demand for artificial support. The most urgent and imperative demand for protection now comes from the iron-masters and the wool-growers.

American iron was born into the world more than a hundred years ago, when Pennsylvania was a colony. Great Britain was the mid-wife who presided at the birth, and endeavored to strangle the infant in its cradle ; but he, being of a tough and fibrous quality, lived and grew apace, until now he could stand alone, if he would only think so. But having been propped up with baby-jumpers and crutches, shoulder-braces, etc., he fears to stand lest he should fall, and demands now to be encompassed with a high wall over which no rude shove shall reach him.

Were the demands of Pennsylvania ever more imperative? Yet what are the facts.

In the fiscal year ending June 30, 1866, a year of very large importations, the total import of iron and steel, and the manufactures thereof, was a trifle over	19,000,000
The export of iron and steel, and the manufactures thereof, allowing two-thirds the value of the agricultural implements and printing presses to have been iron and steel, was about	5,000,000
Leaving a net import of	<hr/> 14,000,000

During the same period, the internal revenue derived from iron and steel of home manufacture, in the forms which are specifically named by law, amounted to \$13,728,133.

The internal taxes alone upon this *infant* home manufacture were nearly equal to the total value of the importation.

It is somewhat difficult to capitalize this tax, as the taxes upon iron and steel were duplicated, and even in some cases quadrupled, but the total value on which this tax was assessed cannot have been less than \$200,000,000, and was probably nearer \$300,000,000. The object in demanding a heavy duty on iron and steel, or any other commodity, can only be to maintain the price in an amount equal to the duty imposed. The demand of Pennsylvania is that

the duties shall be raised to a still higher point than they now are, in order to shut out the flood of \$14,000,000 worth of foreign iron, by granting a bounty on over \$200,000,000 of home production. We may well ask Pennsylvania how much longer she will "plead baby?"

I shall perhaps be charged with ingratitude by some of my friends in Pennsylvania, and I might have felt obliged to take another illustration rather than iron, had it not been for the most unreasonable demand of Pennsylvania for a duty on bituminous coal. If not infants in iron manufacture, the men who advocate this duty are infants in intelligence. Suppose New England being without coal, and being obliged to use costly fuel, were to demand that a tax be imposed upon every steam engine used out of New England, and that her own should be exempt; would there not be an outcry which would overwhelm us with scorn and derision? Should we not be charged with the most selfish designs? Yet such a claim would be far more reasonable, than that of Pennsylvania for a duty on coal, which is only a tax on the steam engines of New England, already working at a disadvantage. The impudence of this claim is only exceeded by the ignorance of all economic law exhibited by those who propose it, which ignorance is their only justification.

It is alleged that because we have begun the manufacture of Bessemer steel rails in this country, the price has been reduced by the English manufacturers from \$150 to \$110 per ton, or about in that proportion; but those who make this absurd allegation make no note of the enormous extension and improvement in this manufacture in England. If their allegation is true the trade in steel rails in England would be conducted in the following manner. Suppose the parties to be the English manufacturer, the Agent of the Pennsylvania Central Railroad, and the Agent of the Pacha of Egypt.

Penn. Agent. — What is the price of steel rails?

Manufacturer. — For what railroad?

Penn. Agent. — For the Pennsylvania Central.

Manufacturer. — The price is \$110 per ton, delivered.

Agent of the Pacha. — I want an equal quantity at same price.

Manufacturer. — Our price for Egypt is \$150.

Agent of Pacha. — Have you two prices?

Manufacturer. — Yes, sir : they are endeavoring to establish the manufacture of steel rails in Pennsylvania, and all the English manufacturers have combined to break them down ; we charge \$110 to Yankees, and \$150 to all others.

Agent of Pacha. — But you make a profit at \$110.

Manufacturer. — Oh, yes, certainly : we don't make a practice of selling at less than cost.

Agent of Pacha. — Good morning, sir ; I will get my rails in Prussia, or wait until the Americans get started. If you make a profit at \$110, and charge me \$150, Pennsylvania will soon supply me at less than \$150, even if you supply her own railroads at \$110.

I believe that any business man must see that the alleged effect of the few small steel-rail establishments in this country is as nothing compared to the effect of the competition in England. We cannot cripple our whole railroad system, cause all our transportation to be more costly, and retard the development of our western country, by granting any higher bounties to a few rail-makers, than we now pay. Yet I do not ask Pennsylvania to cease at once to demand duties upon iron and steel, nor would I willingly submit at once to a great reduction in the duties upon cotton manufactures. Any such abrupt changes would destroy capital and reduce production.

Our problem is to maintain capital, and increase production, and this can only be done by a judicious reduction or abatement of internal taxes, and then by a gradual reduction of duties ; and I for one have always advocated the entire abatement, first and before all others, of the internal taxes upon metals and the manufactures of metal. The metals are at the foundation of all other industry, and any tax upon them is an impediment to the production of almost every commodity needed by men. It is to be hoped, that, whatever Congress may fail to do in the matter of amending our present onerous tax laws, they will not fail to abate all internal taxes upon metals, and the manufactures of metal, and to refuse all requests for an advance in the duties.

The repeal of the cotton tax should immediately follow, if it should

not precede. This tax was never justifiable, except as a temporary expedient; the least onerous method would have been to have collected it of the manufacturers for the home consumption, and of the merchants at the port of export. To attempt to collect of the producers checks the change from the plantation to the small farm system, and checks production. It may be added, that the time is not far off, but will come probably within two or three years, when there will be a surplus of cotton in the world. (See appendix C.)

I think Boston to-day affords a good illustration of the evils of protection. The conditions of soil, climate and coast, indicated maritime pursuits as the province of New England men; and she engaged in them chiefly until the South forced a protective tariff upon the country. As this destroyed commerce, New England developed textile manufactures before their time, and then, becoming converted to the doctrine of protection, continued to foster them by the same process. The result is, that a large amount of the capital, and a large amount of the business capacity of Boston which should have been applied to railroads, steamships and commerce has gone into manufactures; consequently, Boston commerce declines, and young men emigrate. Commerce would have employed the young men at home, or in voyages ending at home; but textile manufactures employ only a few treasurers, agents or commission merchants, and a very large force of operatives or laborers. There are too many young men for the number of places equal to their capacity, and they must migrate. I think the population of New England has not been improved by this forced establishment of textile manufactures.

If, as I have attempted to demonstrate, a tariff is but a tax under another name, then it is a burden upon the labor of the country, and is subject to precisely the same law as an internal tax.

I now come to another point to which I have adverted, viz, that, in the collection of a given amount of revenue, more or less evil could be done, according to the wisdom or unwisdom of the law. Nations which are older than ourselves in the matter of taxes, select certain articles to bear the heavier portion of the burden, rather than lay an even portion on all. It is an axiom, that

the consumers pay all taxes in the long run ; but this should always be qualified by adding, that their consumption of taxed commodities is regulated by their production.. The great body of consumers and the great body of producers are identical, and they procure the taxed articles which they consume in exchange for the articles they produce.

The articles thus selected for taxation are tea, coffee, sugar, spices, spirits, tobacco and other commodities, the consumption of which is voluntary, and the deprivation of which does not impede production. None of the articles named are essential to production, in the sense that meat, bread, iron and clothing are essential ; and therefore the consumer may use a little more or less, according to the price, and still cultivate as many acres or operate as much machinery. England keeps up her custom-houses because tea, coffee, sugar and spirits are natural subjects of taxation ; but, if they were all produced in England, she would tax them by an excise duty at the same rate, and abolish her custom-houses.

But now let us see if we really limit the power of the consumer to purchase tea and coffee, by a high duty on them, and no duty on iron, rather than by a moderate duty on each. Let us return to the Pennsylvanian and the Englishman, and remember the relative condition of labor on iron and wheat.

Let us suppose that each was employed the whole year, save thirty days, in feeding and clothing his family, and has just thirty days to give to accumulating a surplus of capital. The Englishman, for some reason, desires to have, as the representative of his surplus labor amounting to thirty days, a ton of wheat, which he can make in thirty days ; but he can make a ton of iron in twenty. The Pennsylvanian must have a ton of iron, which he can make in thirty days ; but he can make a ton of wheat in twenty. By free exchange, each can satisfy his desire with twenty days' labor, and each will thus have ten days to spare.

Wanting tea, each will work upon some commodity to exchange for tea. We will say that the Pennsylvanian wants five pounds of tea, and with five days' work can get it free of duty ; the Government puts a duty on tea equal to five days more, but the Pennsylvanian still has five days to spare, and works it out. He has

his ton of wheat, his five pounds of tea, and has paid five days work or five dollars to the Government. But, under a system of protection to iron, by which the Pennsylvanian has been caused to give thirty days to iron, he has only the iron; he has no tea; the Government has no revenue, and must now take a part of his ton of iron.

Free exchange of the results of labor, free trade, free commerce, gives to each nation the advantage of the different gifts of soil and climate which God has bestowed upon the several sections of the earth. It increases the abundance of the things which give comfort or enjoyment to all people. It does not degrade the labor, or reduce the purchasing power of the wages in the most favored country, like our own; but, while it would yield to us more comfort and more luxury, it would elevate the oppressed of other nations and civilize the barbarian.

The individual laborer, who is skilful in farming, or well placed on good land, and whose wages are high because his product is large, does not give up his occupation and go to making shoes because some poor shoemaker near him is starving and willing to work cheap; then why should Uncle Sam, with his rich farm, and his immense domain, scarce touched by the hand of man, refuse to employ the pauper labor of Europe, of which we hear so much, because the paupers work cheap?

Much of this hue and cry about pauper labor is mere clap-trap, the pauper labor of England is mainly in the agricultural counties. Of the same nature is the common talk about the flood of foreign commodities with which we are overwhelmed. Let any one analyze the imports for the year 1866, and out of \$368,000,000 on which duties were paid he will find less than \$68,000,000 consisted of articles of luxury, and over \$300,000,000 were articles of comfort or of necessity. It is alleged that the total value of all our products in the year 1866 was \$6,000,000,000; and it is tolerably well ascertained that the value of all our products in 1860 was \$4,000,000,000, on a gold basis. If the estimate for 1866 is correct, then our flood of foreign luxuries was equal to about one per cent on our production!

Upon the third premise, which seems to me fundamental, viz,

that gold and silver, either in the form of bullion or money, are only useful up to a certain amount, which will define itself, if left to natural laws, I shall spend but a moment.

Gold and silver, or specie money, has been adopted by the world as the measure of value of all commodities, and, being an article of universal desire, it has value in relation to other commodities in the proportion which the labor required to mine, smelt and refine the specie bears to the labor required to produce the other commodities. Now if the exchange of all other products of labor be left free, except so far as the need of revenue causes a tax to be imposed upon the so-called natural subjects of taxation, then the exchange of specie as one of the products of labor must be left free also, and it will follow the natural law, remaining where it is wanted most. The country which continues to use it as a measure of value will want it more than the country which has substituted paper as a measure, or wampum or cowrie shells, or any other substitute which ignorance or necessity may devise, and the country which wants it will get it because it will give more of other products of labor for it, unless those products are prevented from entering the country which has the gold. If importations are prohibited or retarded, then gold remains in the country unnaturally, and causes an advance in prices the same as an issue of paper money. If we could prohibit imports absolutely, and continued to mine \$100,000,000 of specie a year, its value in this country, in relation to other commodities, would, of course, be far less. This was done in Japan. Japan produces gold, but, by non-intercourse, it had so accumulated it as to cause it to lose a part of its purchasing power, or relation to other products; and the first outside barbarians who opened trade with Japan, obtained much more gold for their commodities than they could have got elsewhere.

We can take the same position in the world as Japan, if we inflate our currency and prohibit imports; but our gold will then have no value except in the arts, as paper can be made with less labor than gold can be mined.

Taxation of any kind is surely a burden, but it has its compensation. The desire to live as comfortably, or, in other words, the desire to produce as much for one's own use, despite all taxes,

stimulates invention ; and every invention, by increasing the productive force of the laborer, increases the result. The invention of improved agricultural machinery kept our crops increasing all through the war, and I suppose we can now produce as much more than we formerly could as would suffice to pay all the taxes without using any more effort or expending any more hours of labor in the aggregate ; but the trouble is, the increase is not equitably divided, and cannot be under our present system of currency : therefore the burden presses more and more upon the mass of the people, and will continue to do so until the proper correctives are applied.

Now as to the correctives. The first essential thing to be observed is not to make any rapid change. Because it would have been better to have collected the revenue from what I have called the natural subjects of taxation at the beginning and up to the present time, it by no means follows that we should jump to that system at one bound.

Our industry has been diverted from its natural channels by protection, and we must slowly and cautiously guide it back, else we may all be paralyzed. We need the immediate establishment of a permanent board of Commissioners of Revenue, consisting of at least five competent men, secure in their tenure of office, well paid, and selected because of their fitness and ability. Mr. Wells alone, with work piled upon him which five men could not have accomplished in the very best manner in the time given, has yet made a report of inestimable value, and such as was never presented to the country before.

A permanent board, known to have the matter of revenue in charge, would take it mainly out of party politics. The people could not afford to have it trifled with. The Board of Commissioners would prepare changes and give fair warning, thus giving each branch of industry time to prepare, and preventing disaster.

Slowly, but surely and safely, can this country be brought to a system by which it shall secure an ample revenue from almost as few articles or interests as are now taxed in Great Britain. If any one doubts this, let him consider. We have now, as I suppose, a larger population, and though not as much accumulated capital, yet, what is more valuable, a better educated people, and a country whose resources have hardly been touched, and whose productive capacity may be indefinitely increased. Can any one doubt that

a given number of hours of American labor will yield a larger result than a given number of hours of English labor? Aggregate all the American laborers into one, and all the English laborers into one. Put the Yankee education and the Yankee versatility, and the innumerable labor-saving devices of the Yankee, and also the varieties of our soil and climate, against the great works and mills, and greater accumulated capital of the Englishman, and which would get the greatest result for his labor? I think every one here will honestly answer, The Yankee.

Then he will consume more tea and coffee and sugar and spirits and spices, and have a greater income, and require more stamps to represent more transactions, than the Englishman; and, consequently, the same rates of tax upon these various items will pay our larger rate of interest, but our less cost of army and navy and civil service, and pay our debt besides as rapidly as it should be paid. We are paying debt too fast now. The faster we try to pay at the beginning, the longer we shall be in paying the whole.

The Secretary of the Treasury estimates the expenses of the Government, for the fiscal year, ending June 30, 1868, as follows, in round numbers :

Civil service	.	.	.	.	.	.	\$50,000,000
Pensions and Indians	.	.	.	.	.	.	25,000,000
War Department	.	.	.	.	.	.	50,000,000
Navy	.	.	.	.	.	.	30,000,000
Interest	.	.	.	.	.	.	135,000,000
							<hr/>
							\$290,000,000

We may soon reduce the expenses of the War and Navy Departments to an aggregate of \$50,000,000, and ought to increase the interest to \$150,000,000 by funding the legal tenders. The estimate would then stand :

Civil Service, Pensions and Indians	.	.	.	.	.	.	\$75,000,000
War and Navy	.	.	.	.	.	.	50,000,000
Interest	.	.	.	.	.	.	150,000,000
							<hr/>
							275,000,000
Add for reduction of debt	.	.	.	.	.	.	25,000,000
							<hr/>
Total	.	.	.	.	.	.	\$300,000,000

Population increases by births and immigration more than three per cent per annum on the average, but production increases in a much greater ratio; and rates of taxation so adjusted as to yield \$300,000,000 now would doubtless yield \$400,000,000 within ten years. The expenses of the Government would doubtless increase, but, in the absence of war, not more than the saving of interest on the debt annually paid would amount to.*

* If consumption should only increase at the rate of three per cent per annum, the rate would, in ten years, cause the avails of taxes to be about thirty per cent more. The rates of taxation, which would now give \$300,000,000, would then give \$390,000,000.

If consumption should increase five per cent per annum, that rate would yield in the tenth year about \$450,000,000.

If we allow an increase of consumption at the rate of five per cent per annum, the following sums would be available in each year for the payment of debt, and in this estimate I allow a present need of \$300,000,000, and that our expenses shall increase as fast as our interest decreases, or that we shall only decrease debt by the amount we get over \$300,000,000.

1st year, on 300,000,000, 5 per cent . . .	\$15,000,000
2d " " " 10 " . . .	30,000,000
3d " " " 15 " . . .	45,000,000
4th " " " 20 " . . .	60,000,000
5th " " " 25 " . . .	75,000,000
6th " " " 30 " . . .	90,000,000
7th " " " 35 " . . .	105,000,000
8th " " " 40 " . . .	120,000,000
9th " " " 45 " . . .	135,000,000
10th " " " 50 " . . .	150,000,000
11th " " " 55 " . . .	165,000,000
12th " " " 60 " . . .	180,000,000
13th " " " 65 " . . .	195,000,000
14th " " " 70 " . . .	210,000,000
15th " " " 75 " . . .	225,000,000
16th " " " 80 " . . .	240,000,000
17th " " " 85 " . . .	255,000,000
18th " " " 90 " . . .	270,000,000
19th " " " 95 " . . .	285,000,000
20th " " " 100 " . . .	300,000,000
	<hr/>
	\$3,150,000,000

Or in less than twenty years the whole debt will be paid, and we should

Let us now see how near we have already come to securing the sum of \$300,000,000, from the sources from which revenue can be derived with the least injury.

In the fiscal year ending June 30, 1866, the taxes imposed, either under the Tariff or Internal Revenue Laws upon the following articles or interests: Incomes, Stamps, Licenses, Banks and Insurance Companies, Legacies and Successions, Gross Receipts of Railroads, Canals, Lotteries, Telegraph Companies, etc., Tea, Coffee, Sugar, Spices, Spirits and Wines, Fermented Liquors,

have \$500,000,000 to spare to build two or three Pacific Railroads, a ship canal across the Isthmus of Darien, and a few more works of the like character.

If we allow an increase of the results of taxation at the rate of the increase of population, say only at three per cent, and allow \$300,000,000 as the constant amount required for expenses and interest, we have the following result:

3 per cent on 300,000,000,	1st year,	.	.	.	.	\$9,000,000
"	"	2d	"	.	.	18,000,000
"	"	3d	"	.	.	27,000,000
"	"	4th	"	.	.	36,000,000
"	"	5th	"	.	.	45,000,000
"	"	6th	"	.	.	54,000,000
"	"	7th	"	.	.	63,000,000
"	"	8th	"	.	.	72,000,000
"	"	9th	"	.	.	81,000,000
"	"	10th	"	.	.	90,000,000
"	"	11th	"	.	.	99,000,000
"	"	12th	"	.	.	108,000,000
"	"	13th	"	.	.	117,000,000
"	"	14th	"	.	.	126,000,000
"	"	15th	"	.	.	135,000,000
"	"	16th	"	.	.	144,000,000
"	"	17th	"	.	.	153,000,000
"	"	18th	"	.	.	162,000,000
"	"	19th	"	.	.	171,000,000
"	"	20th	"	.	.	180,000,000
"	"	21st	"	.	.	189,000,000
"	"	22d	"	.	.	198,000,000
"	"	23d	"	.	.	207,000,000
"	"	24th	"	.	.	216,000,000
						<hr/>
						\$2,702,000,000

or more than the entire debt in twenty-four years.

Tobacco, and Manufactures of Silk, amounted to about \$260,000,000, of which over \$80,000,000 was in gold from the Customs.

The Income tax will be reduced by being made uniform, but the tax on spirits will be increased by the enforcement of the law, it having been over \$37,000,000 in the calendar year ending Dec. 31, 1866, against \$29,000,000 in the fiscal year ending June 30, 1866.

It may be alleged that this year yielded more than an average, and there is some force in the objection; but, if we remove the internal taxes on iron, steel and on manufacturing generally, that is if we remove the impediments to production, I believe the consumption of tea, coffee, etc., the use of stamps and the aggregate of incomes, would increase; at any rate we could safely count on \$250,000,000 from such sources. In confirmation of which opinion see the letter of Hon. D. A. Wells hereto appended.

If we can get \$250,000,000 from these sources, we should have but \$50,000,000 left to obtain from all other foreign imports; but to reduce the duties thereon so as to yield but \$50,000,000 would be too abrupt a change, — it would be better to raise \$75,000,000. The latter sum would probably be yielded by a tariff at about the present average rate of forty-eight per cent, less twelve to fifteen per cent reduction, as the equivalent for the reduction in internal taxes, — say by an average rate of duties of thirty-three and a third per cent. Such rate would really give as much protection to home industry as the present tariff, if home industry is relieved from the present onerous internal taxes. There are few textile manufacturers, or none, who would not say that a net duty of thirty per cent. on foreign imports would be better for them, with the internal taxes removed, than the present high rates of duty are with the internal taxes as now imposed.

To this practical agreement I believe New England manufacturers would come. The protectionist would say, twenty-five to thirty per cent net duty gives us all we want; and the free trader would say, We advocate for the present twenty-five to thirty per cent net duty for the purpose of obtaining revenue. The result is the same, but it is of the utmost importance that we start from the free trade rather than the protective point of view. The free trader

cannot be swerved from a uniform system, because he looks upon the whole thing only as a necessary evil; but the protectionist is constantly in danger, because he thinks he can confer a benefit and is therefore at the mercy of each special interest.

Hence the futility of the attempts to pass a tariff bill at the two last sessions of Congress. Each man put in his brick, until the whole structure became absurd and ridiculous, and at last it all tumbled to the ground together.

When the Committee of Ways and Means shall frame a moderate tariff, as a revenue measure, upon a fixed principle, firmly assuring the representatives of each special interest that they must adjust themselves to it as best they may, it will be very certain that the common sense of the people will compel the enactment of the law thus framed.

The question of protection has been much complicated, during the late sessions of Congress, by the claim made by the Western and Middle States for protection to agricultural products and upon materials in their primary or secondary condition, such as copper ore and regulus, raw and lined flax, hemp, jute, linseed, hides, goat-skins, salt, etc. It would seem as if the West had suddenly come to the conclusion that New England, by means of protection to manufactures, had been making money out of them, and that it was time for them to get a return from New England.

I cannot deny that if New England has derived benefit from the bounty granted under the name of protective duties, which I doubt, so far she has prospered at the expense of the rest of the country. I do utterly deny, however, that this special benefit has been intentionally secured by the advocates of protection. They have, and do still earnestly believe, that protection is a benefit to the whole community, and that their own gain is but a proportional part of the general gain. I think, however, they will find it somewhat difficult to meet the claims of the Western men, if they adhere to the doctrine of the expediency of protection; and that such is actually the case, is proved by the recent combination of the wool growers and the woollen manufacturers.

The wool growers' claim has been admitted, and a protective duty has been placed upon foreign wool. This claim might have been

presented in a much stronger manner than it has been. The wool growers might have said to the manufacturers, "You advocate protection to American labor, and insist that you are its representatives because you are manufacturers: your claim is well grounded. American labor should be protected, and, if this is to be secured by protection to manufactures, *we* are the real *manu*-facturers. Nature has given such conditions of climate and soil to Ohio that to make wool we must *with our hands* build fences and barns, and cultivate the land, and also shear the sheep. Our wool is a manufacture; and, in numbers, we, the agriculturists, are greater than those who operate your machinery."

The manufacturers of woollen fabrics must admit the claim, and they have done so. The result is a higher bounty to each of these interests.

The claim of the wool grower cannot be met by an advocate of the principle or expediency of protection, but can be easily controverted by the advocate of free trade. What is the claim of the wool grower of Ohio but this, that he shall substitute human labor for the free sunshine which nature has given to South Africa, to Syria, and to South America; and that the community who use wool in the form of woollen garments must be made to pay for such useless labor.

The wool of South Africa and South America may be said to represent four parts sunshine and soil, gratuitous and common to all, to one part of human labor measured at the rate of twenty-five cents per day. The wool of Ohio represents, on the contrary, two parts of sunshine and soil, to three parts of human labor measured at the rate of \$1 per day.

Protection to wool is only an artificial impediment by which we shall be prevented from enjoying the larger bounty of nature with which God has endowed South Africa in this one respect. We refuse it, because it is gratuitous and common, and, as a nation of 36,000,000, we charge ourselves with a bounty for the possible benefit of half a million interested in wool growing.

Bastiat's satire, in the form of a petition of the candle-makers and tallow-chandlers of Paris to be protected against the light of the sun, by having all the windows closed, and the streets roofed over, is not more absurd.

On the other hand, can the manufacturer of woollen cloths and other fabrics substantiate his claim to protection? He has no greater claim to a bounty; and has, at this time, only a right to be spared the disaster which a sudden change in the revenue policy would cause.*

To the advocate of a revenue tariff, from the free-trade standpoint, the problem is perfectly simple. His ground is this. If we had no expenses, we should need no revenue, and our industry would assume that exact measure of diversity which our soil and climate indicated, and the intelligence of our people rendered possible. Our true prosperity would consist in the abundance of the commodities which we desire and use, and not in the amount of money by which we measure them. Our laboring people would secure the most comfort and the most rapid progress, not by high wages, — the result of an artificial scarcity, — but with low wages and a natural abundance of commodities.

But we must have a revenue; how shall we obtain it? Free trade and direct taxation we almost unanimously reject, and protection we equally reject.

Should we not then first tax such articles as are not of prime necessity, — such as tea, coffee, sugar, liquors, spices and silk goods; next, the interests which are the farthest removed from labor, — such as licenses, incomes, stamps, banks and the like?

When we have exhausted these sources of revenue, should we not rather levy a duty upon such commodities as represent the larger amount of human labor, skill and invention, and the lesser amount of the gratuity of Nature?

Wool, hemp, jute, cotton, copper ore, salt, linseed, hides, skins and the like represent commodities which are the product mainly of Nature, supplemented by a small degree of the effort or labor of man, and that labor of the lowest grade. If we place an obstacle in the way of the importation of the free gifts of Nature, we place ourselves at a disadvantage as compared with all other nations who accept them thankfully.

* Such disaster as overwhelmed the manufacturers of worsted goods, when by the sudden, and as I believe most unwise abrogation of the Reciprocity Treaty, the coarse Canada wool, which had been free, became subject to a heavy duty.

We would select rather, as the sources from which we can derive the remainder of our revenue with the least disadvantage, such commodities as are mainly the result of human labor or skill, and these we find in what are called manufactures; in these we find but a small portion of the gratuity of nature, and a large portion of the skill or invention and of the labor of man. And as other countries have, in the production of certain manufactures (using the word manufactures in its ordinary sense), greater skill, and more abundant and cheaper labor than we have, we can impose a tariff for revenue upon such manufactures, from which shall arise a certain amount of stimulus to home production; but which, being imposed at a rate representing a sum less than the difference in the measure of the labor required to produce the commodity abroad as compared with the labor required to produce it at home, will yield the revenue at a cost to the community of the revenue itself and no more.

I cannot close this treatise in a better manner than by submitting the following propositions:

Perfect protection is impracticable; but, if practicable, would cause all revenue from imports to cease, and render direct taxation imperative.

If perfect and equal protection were practicable, it would simply result in a general rise in prices and in wages, and since it would prevent exports and consequently imports, it would decrease the aggregate of commodities, or in other words, the aggregate result of labor; and since capital is the surplus result of labor, a decrease in the aggregate would be a decrease in the surplus. The amount of capital would therefore be less in proportion to the number of laborers, and this condition of things would be to the disadvantage of the laborer, since, as we have before quoted from Bastiat, "In proportion to the increase of capital, the absolute share of the total product falling to the capitalist is augmented, and his relative share is diminished; while on the contrary the laborer's share is increased both absolutely and relatively."

Imperfect, or partial protection adds to the tax which accrues to the Government a bounty to individuals or classes, in many

cases more than equal to the amount of revenue secured by the Government.

A duty or tax upon articles which are mainly the result of a small amount of unskilled labor, by which the gratuities of nature are put into form for use, and which are known as raw materials, is an impediment to the use of the free gifts of God, which should be common to all. The nation imposing such a duty places itself at a disadvantage as compared with all other nations.

A duty or tax upon articles which are mainly the result of human labor, aided by the largest amount of skill or invention, commonly known as manufactures, will yield a revenue at the cost to the community only of the revenue thus raised.

Protection decreases the abundance of commodities, and increases the absolute share of a small number of the people at the cost of a portion of the relative share of each.

Free Trade increases the abundance of commodities, gives to each the relative share which his education, skill or capital entitle him to, and leads to the harmonious development of the powers of all.

We shall reach specie payment, not by the prohibition of imports but by the increase of the products of labor, other than gold or silver, to such a point that other nations will buy them on account of their cheapness, rather than our specie, and thus enable us to retain specie and export cotton, oil, wheat, etc., in full for our imports.

The larger portion of the revenue now required by the United States can be obtained from commodities which are not absolutely necessary to the productive power of the people, and the remainder from a moderate revenue tariff which shall cost the people only the amount of revenue thus obtained.

A reduction of the aggregate of taxation from \$16.04 currency or \$11.46 gold per head to \$8.60 per head will yield a revenue sufficient to meet the probable expenses of the Government, and pay the debt in less than twenty years. (See appendix B.)

The amount of \$8.60 per head can now be obtained from very moderate rates of taxes and duties, as compared with what we have been paying ; and, as wealth, production and consumption, increase

faster than population, a less and less rate of tax or duty upon commodities or interests will yield the requisite amount per head.

To secure these benefits, stability is absolutely essential; and no stability is possible until we mature and persistently follow a system in regard to the currency which shall, as soon as possible, lead us to specie payment. An inconvertible paper currency enables the few to tax the many in the most onerous and unjust manner, and judicious but uniform and persistent contraction of the currency is the first and most imperative duty of the Government.

As some surprise has been expressed, that these views should emanate from a manufacturer of cotton goods, I will add, that I believe a gradual and judicious reduction in the duties upon foreign commodities, in the manner proposed, — of course preceded by an entire abolition of the internal taxes upon manufactures, — will result in a more permanent and uniform condition of prosperity in the manufacture of textile fabrics, as well as of all other commodities, than we have ever yet enjoyed. If we can come slowly but surely to what is called British Free Trade, we shall share in the increase of wealth which that system has brought to Great Britain, — only the benefit to us would be greater, as our natural advantages and variety of resources are greater. British Free Trade is the result of the longest experience and the greatest amount of intelligence applied to the collection of revenue; I trust it may not be many years before the people of England will learn from us the true principles upon which the laws relating to the tenure of land, the church establishment and popular education should be based. Upon these points they are yet under the control of protective or bounty laws of the most vicious character, and which render the increase of wealth which they have derived from the modifications of their revenue system less beneficial because of the partial and inequitable division of such increase of wealth which they cause or permit.

The world demands to be supplied with the various commodities called manufactures, such as textile fabrics, iron ware, agricultural implements, etc., etc. The question is, who shall supply such commodities? Thus far, the practical answer has been, England; and we may well ask ourselves why this has been. Labor is not as

cheap in England as in Germany, neither is labor as cheap in England or Germany as in India or China; yet the dear laborer of England rather than the cheap laborer of Germany supplies the inhabitant of China and of India with textile fabrics. Why is this? A complete answer could only be given by a Buckle or a Lecky; but we may glance at some of the causes.

1. The possession of large deposits of coal and iron first enabled England to supplement manual labor by cheap machinery.

2. The intelligence of England soonest relieved commerce from the trammels and fallacies of the "Mercantile System."

3. The possession of coal and iron in abundance having enabled England to thrive in spite of the Protective System to which she so long adhered, she has led all other nations in the adoption of what is called British Free Trade, and by that has been enabled to accumulate wealth faster than other nations which have a better although not the best system of land tenure, like France, or a far better system of education, like Germany.

4. Under the system of British Free Trade she receives from all parts of the world such commodities as their conditions of soil, climate and population, enable them to produce cheaper, paying therefor in the commodities which she can produce better or cheaper than they. She places no artificial obstacle in the way of any import because it is cheap, but simply imposes duties, *for revenue*, on a few articles of universal consumption, and difficult to smuggle.

How shall we compete with England in supplying the demand of the world, for manufactured commodities, and thus secure to ourselves a greater abundance of the necessities, comforts or luxuries of life, for such is the only incentive to commerce or exchange? Neither nations nor individuals will ever establish trade or exchange with each other unless each shall in the long run get more than he gives. No permanent trade is possible where the satisfaction or gain is all on one side. The mutuality of services rendered, is essential to the continuance of mutual exchange or trade.

We want more foreign luxuries and comforts than England, because the great mass of our people can afford them better, and we have more natural resources than England, in the shape of easily-worked mines, a better climate for the breeding of sheep and the

product of wool, almost a monopoly in ordinary times in the production of cotton, and in all farming operations a superiority in natural advantages hardly to be measured, and therefore we have far greater power to create wealth, and in the production of wealth to combine the larger amount of the gratuity of Nature with the smaller amount of labor.

I can only see one answer to the question, how we shall compete with England in supplying the world with manufactured articles, and that is by adopting the same system of British Free Trade as soon as our need of revenue and a cautious, slow and judicious method in making the change, will allow us to do it.

Freedom of trade, leads to the free movement of the laborer, and he will surely seek that country where he can secure the most comfort and the best conditions of life in return for his wages and it matters not whether his wages be measured at a high or low rate. Our natural advantages would have induced a larger immigration, and would, I believe, have caused our textile as well as all other manufactures to have been more firmly established to-day and upon a larger scale than we have ever dreamed of, had we not impeded the importation of foreign commodities by protective duties, and thus confined ourselves mainly to the home market for our manufactures. We shall again share with England in the commerce of the world and in the profit of that commerce, when we cease to deprive ourselves of the benefit of our natural advantages over England, by adherence to the principle, or rather the want of principle, involved in laws imposed for the purpose of protection.

APPENDIX A.

The following information has been furnished by the Hon. D. A. Wells, in answer to specific questions. For the application of the facts to the theories discussed in the body of the pamphlet, Mr. Wells is not responsible:

TREASURY DEPARTMENT,
OFFICE OF THE SPECIAL COMMISSIONER OF THE REVENUE,
Washington, D. C., March 21, 1867.

EDWARD ATKINSON, ESQ., BOSTON, MASS.,

Dear Sir:—In answer to your recent application for information touching the National Revenues, I would submit the following statement:

1. The largest amount ever collected in any one fiscal year, by the Government, from Internal Taxes and Customs, was during the fiscal year ending June 3, 1866. During this year the amount collected from Internal taxation was \$310,906,984, *currency*, and from Customs \$179,046,630, *gold*. Reducing the Customs receipts to currency, (the premium on gold being assumed at forty per cent,*) we have, as the total amount of revenue drawn from the country, during the above year, by various forms of taxation, the sum of \$561,572,266 currency; which, with an assumed population in 1866, of thirty-five millions, is equivalent to \$16.04, currency, or \$11.46 in gold, per capita.

2. It is difficult to say, from how many articles or interests this large amount of revenue was derived — by direct or indirect taxation. The whole number of sources under which the receipts of internal revenue are classified, excluding articles placed on the free

* The average price of one dollar, gold, for the United States fiscal year ending June 30, 1866, was one dollar forty and a half cents currency.

list by the legislation of the thirty-ninth Congress, is about *ninety*. Each one of these sources, however, includes a very large number of specific articles; all hardware and cutlery, for example, being included under the class of “manufactures of iron.” If recognition is to be taken of each specific article, subjected to internal taxation, the whole number of articles thus taxed, would probably show an aggregate of not less than ten thousand.

The number of articles subjected to taxation, under our existing tariff, has been estimated to be about six thousand, and of this number, upwards of two thousand are specifically enumerated in the last edition of Ogden’s tabulated Tariff.

3. During the fiscal year, 1866, the revenue collected from the articles and interests below specified, was as follows :

INTERNAL REVENUE.

[ACTUAL.]

Cigars and Cheroots	\$3,476,237
Snuff	698,174
Tobacco, manufactured	12,339,922
Distilled Spirits	29,198,578
Fermented Liquors	5,115,140
Sugar (raw)	567,531
“ (refined)	2,337,405
Gross Receipts	11,262,430
Sales (auction, brokers and gold)	4,002,283
Licenses	18,038,098
Legacies and Successions	1,170,979
Banks and Insurance Companies	12,109,420
Stamps	15,044,373
Incomes, assessed upon an aggregate of \$872,871,489	61,071,932
	<hr/>
	\$176,432,502

REVENUE FROM CUSTOMS.

[ESTIMATED.*]

Spirits and Wines, including Malt Liquors .	\$7,000,000
Coffee, Tea, Chocolate, Cocoa, Chicory, etc.	18,000,000
Spices, all enumerated	2,000,000
Sugar, Molasses and Syrup	32,000,000
Rice	1,849,840
Tobacco, and manufactures of	5,000,000
Silk, manufactures of	16,150,160
	<hr/>
	\$82,000,000†

4. In reply to your inquiry, as to the “probable future receipts from the above sources, in an average year, upon a specie basis,

* As the returns of importations to the Treasury Department have not heretofore specifically embraced quantities, but only values, and have also failed to properly classify goods entered and subsequently withdrawn from bond for consumption or reëxportation, the amount of Customs Revenue derived from specific articles cannot be given with the same accuracy as under the Internal Revenue system. The figures as here presented are, however, believed to be approximately correct for the last fiscal year (1866). It may be also stated in this connection, that with the recent organization of the Bureau of Statistics of the Treasury Department, a new method of returning importations was instituted, and that hereafter the details of the Customs Revenue, for each fiscal year, will probably be laid before the public, with as much of accuracy and promptness, as now characterize the returns of the Bureau of Internal Revenue.

† The duties upon the quantities entered at the several custom-houses would have amounted to the following sums; but the entire quantity may not have been withdrawn during the year:

Spirits, wines and malt liquors	9,510,713 00
Coffee, tea, chocolate, cocoa and chicory	20,112,881 32
Spices	2,361,233 26
Sugar, molasses and syrup	34,533,439 95
Rice	1,849,839 40
Tobacco, and manufactures of	5,149,359 70
Silk, manufactures of	16,378,102 95
	<hr/>
	\$89,895,569 58

provided all other internal taxes except those named above were removed," I would say, that, with the exception of the income tax, the rate of which has been recently reduced by law, I see no reason why the aggregate revenue from the above-named sources should be diminished. On the contrary, with a restoration of the finances and of the industry of the country to a normal condition, there is every reason to expect an increase, rather than a diminution of such revenues.

The amount of revenue derived from distilled spirits, during the last fiscal year, as above stated, was far less than what was legitimately due to the government; at least *five* gallons out of every *eight* distilled in the country, having escaped taxation. With better laws, better officers, and additional experience on the part of the Government, a revenue from distilled spirits, amounting to at least from fifty to sixty millions of dollars per annum, may be expected; thus more than supplementing any loss to the revenue from a reduction in the rate of the income tax.

5. In regard to the future increase of the revenue from an increase of the country in wealth and population, no positive estimate can be made at present, but that a certain and continued gain would undoubtedly accrue, cannot be doubted. The rate of growth of the revenue of Great Britain averaged, for the six years prior to the year 1865-6, about 1,780,000 pounds sterling (\$8,900,000), per annum. The average annual increase in the value of the real and personal property of Great Britain from 1841 to 1863, is estimated at three and one-half per cent. The average annual increase in the real and personal property of the United States from 1840 to 1850, according to the census returns, was in excess of five per cent; and from 1850 to 1860, in excess of ten per cent. It would seem, therefore, that we would be warranted in assuming the amount of increase of revenue in the future, from an increase in the wealth and population of the country, under a simple and well-organized system of taxation, to average from ten to fifteen millions of dollars per annum. It might be further stated, that, the average annual increase of \$8,900,000 in the revenue of Great Britain, as above noticed, occurred on an aggregate revenue of about three hundred and fifty millions of dollars, while the revenues

of the United States, for the fiscal year ending June 30, 1866, reduced to a gold basis, was about four hundred millions of dollars.

6. The total returned value of the iron and the manufactures of iron imported into the country during the fiscal year ending June 30, 1866, was \$11,279,825. The total value of steel and manufactures thereof, imported during the same period, was \$7,758,823. The aggregate total value of iron and steel and manufactures thereof, imported into the United States during the fiscal year ending June 30, 1866, was \$19,038,648. During the same fiscal year, there were exported of iron and steel and manufactures thereof, of —

Domestic Manufactures, to the value of . . .	\$3,610,551
Foreign Manufactures, to the value of . . .	274,296
<hr/>	
Total value of Exports of Iron and Steel and Manufactures thereof }	\$3,884,847

No data exist for *accurately* determining the *present* annual value of the domestic product of iron and steel and the manufactures thereof. The aggregate internal revenue derived from the taxation of these articles for the fiscal year ending June 30, 1866, was \$13,728,133. If we suppose the taxes to have averaged *six* per cent (which they did not) the above sum capitalized would give, as the value of the domestic product, 228,802,217 dollars. It should, however, be borne in mind that the taxes producing the amount of internal revenue above specified, must have been to a very considerable extent duplicated.

The aggregate value of the domestic product of iron and steel and of manufactures of iron and steel, according to the census of 1860, was returned at 204,235,177 dollars, the returns then made being on a gold basis.

I am, yours most respectfully,

DAVID A. WELLS,

Special Commissioner of the Revenue.

APPENDIX B.

The rate of the increase of the population has been established at three per cent, compounded, by the census taken once in ten years since the year 1800. It is therefore safe to estimate the aggregate of taxes by applying a given rate per head to the estimated population. In the following Table I have established the uniform rate at \$8.60, which rate will yield, in the year 1868, a sum sufficient to cover the expenses of the Government as estimated by the Secretary of the Treasury, for the fiscal year ending June 30, 1868, the interest on the whole debt at six per cent, and \$24,800,000 for the reduction of the debt.

As above stated, population has increased at the rate of 3 per cent compounded since the year 1800. This rate applied to the population in 1860, 31,443,322, would give in 1868

	39,831,450
Deduct for the effect of the war,	1,831,450
	<hr/>
	38,000,000

Mr. Wells estimates population in 1866 at only 35,000,000, or, in 1868, about 37,000,000, thereby allowing about 1,000,000 more than I have for the retardation of the war. If we start in 1868 on a basis of only 37,000,000 it will require a portion of another year to complete the payment of the debt at the rate of \$8.60 per head.

Year.	Population com- pounded at rate of 3 per cent per annum, after allowing 1,831, 451 for the retarda- tion of the war.	Rate of Taxation per head.	Aggregate amount of the Taxes.	Expenses for Army & Navy, Civil Service & Pensions, in- creased annually at \$2.00 per head on the increase of population.	Amount avail- able for interest and for reduc- tion of debt.	Amount of debt bearing interest.	Rate of Interest.	Amount of Interest.	Amount of Reduction.	Net Debt.
1868	38,000,000	\$8 60	326,800,000	152,000,000	174,800,000	2,500,000,000	6	150,000,000	24,800,000	2,475,200,000
1869	1,140,000	8 60	336,604,000	2,280,000	182,324,000	2,475,200,000	6	148,512,000	33,812,000	2,441,388,000
1870	39,140,000	8 60	346,702,120	154,280,000	190,073,720	2,441,388,000	6	146,483,280	43,590,440	2,397,797,560
1871	1,174,200	8 60	357,103,183	156,628,400	198,055,931	2,397,797,560	6	143,867,854	54,188,077	2,343,609,483
1872	40,314,200	8 60	367,816,272	2,418,852	206,277,604	2,343,609,483	6	140,616,569	65,661,035	2,277,948,448
1873	1,209,426	8 60	378,850,760	159,047,252	214,745,932	2,277,948,448	5½	125,287,164	89,458,768	2,188,489,680
1874	41,523,626	8 60	390,216,280	2,491,416	223,468,308	2,188,489,680	5	109,424,484	114,043,824	2,074,445,856
1875	1,245,708	8 60	401,922,763	161,538,668	232,452,353	2,074,445,856	5	108,722,292	128,730,061	1,945,715,795
1876	42,769,334	8 60	413,980,445	2,566,160	241,705,923	1,945,715,795	5	97,235,789	144,420,134	1,801,295,661
1877	1,283,080	8 60	426,399,851	164,104,828	251,237,095	1,801,295,661	5	90,064,783	161,172,312	1,640,123,349
1878	44,052,414	8 60	439,191,843	2,643,144	261,054,205	1,640,123,349	5	82,006,167	179,048,038	1,461,075,311
1879	1,321,572	8 60	452,367,594	166,747,972	271,165,828	1,461,075,311	5	73,053,766	98,112,062	1,262,963,249
1880	45,373,986	8 60	465,938,617	2,722,438	281,580,799	1,262,963,249	5	63,148,162	218,432,637	1,044,530,612
1881	1,361,219	8 60	479,916,763	169,470,410	292,308,211	1,044,530,612	5	52,226,530	240,081,681	804,448,931
1882	46,735,205	8 60	494,314,274	2,804,112	303,357,466	804,448,931	5	40,222,445	263,135,021	541,313,910
1883	1,402,056	8 60	509,143,702	172,274,522	314,738,190	541,313,910	5	27,065,695	287,672,495	253,641,415
1884	48,137,261	7 61 +	464,281,161	2,888,234	266,323,485	253,641,415	5	12,632,070	253,641,415	Debt Paid.

In the consideration of this table, the following facts must be kept in mind: The rate of 8.60 per head is very much less than the present rate of taxation, and can be collected after the abatement of the ad valorem tax on manufactures and of the tax on cotton, and after a reduction of 30 per cent on the average rate of duties in the existing tariff.

As production and wealth increase much faster than population, the increased consumption of tea, coffee, sugar, liquors, silks and the like, would probably allow the abatement of the income tax or a further reduction of the tariff about the year 1870 or 1871. The abatement of the income tax would probably precede any further reduction of the tariff as it is a direct tax, and consequently, very obnoxious, yet if properly adjusted it is one of the fairest taxes in the whole list, and ought to stand until the debt is paid. There can scarcely be a doubt that the rate of \$8.60 per head will be obtained, long before 1884, from tea, coffee, sugar, liquors, spices, silk goods, stamps, banks, insurance, licenses, legacies and successions, supplemented by a tariff upon other commodities not exceeding the rate of twenty per cent ad valorem, — (all duties should be specific as far as possible.)

I have made no account of the apparent saving of interest accruing from the issue of greenbacks (or debt bearing no interest) as I believe the people lose far more than the interest saved, so long as they continue their use as lawful money; I have therefore estimated the amount of interest as if the whole debt were funded at 6 per cent until 1872, inclusive, then for one year at five and a half per cent while 5-20 bonds are being paid or converted, and from 1874 to 1884, inclusive, at 5 per cent.

The question may be asked whether it is not proper for Congress, after making the very large allowance for army and navy, included in the foregoing table, to assume a state of peace and of normal development for at least twenty years to come; and upon that assumption to issue bonds in classes, so that in each year the Government may be able to pay a certain class, instead of providing for the payment of debt by the old method of a sinking fund, a method condemned by all modern economists.

It is proposed to pass a law for the consolidation of the debt.

If such consolidation were made into 5-20 bonds, in classes of \$50,000,000 each, the Secretary could at any time call in one class and not disturb the remainder.

It is possible that residents in other sections may expect some falling off in the result of the tax upon liquors from the attempt to enforce the prohibitive law in Massachusetts ; but the reverse will probably be the case. The liquors seized under this law are destroyed, but consumption does not decrease ; and as the excise tax is imposed upon the amount produced, the avails of the tax will be greater by the sum of the tax on the liquor destroyed.

The destruction of liquor will simply be an additional tax upon the consumer, as the cost of what is destroyed must be added to the price of that which is consumed.*

There may be a falling off in the consumption of other commodities caused by the habits of drunkenness and immorality which will probably follow this vicious legislation, such having been the case in other countries in which prohibitive legislation has been attempted.

It is much to be regretted that the Republican party, under whose control the country has made such vast progress toward freedom, and by whose acts it has been made possible for an American to claim to be a citizen of a free country, without being open to the charge of being either a hypocrite or a knave, should be loaded with the weight of prohibitive laws in New England, and of ultra protective legislation in Congress ; and it is to be feared that the party will lose its control, unless some of our statesmen shall prove themselves worthy of the name, by showing ability to guide and control the legislation of the next Congress in the right direction.

We have one man in Massachusetts who has proved his title to become a leader in these matters, as he has been a leader in all the other great questions of the day, by his recent exhaustive

* It is to be hoped that Congress will see fit to reduce the tax upon liquors. The present rate of \$2.00 per gallon has proved to be too high ; and although the law may be better enforced, it will be met by a better system of evasion, which is now taking the form of a regular system of mutual insurance against seizure.

argument upon the prohibitive liquor law ; but, unfortunately, he does not yet represent us either in the National House or Senate. He might well be seconded or co-operated with by the gentleman whose argument lately convinced the House of Representatives of Massachusetts that her usury laws were relics of superstition and ignorance.

APPENDIX C.

MEMORANDUM SENT TO THE COMMITTEE OF WAYS AND MEANS IN APRIL 1866, UPON THE SUBJECT OF A TAX UPON COTTON.

To the Committee of Ways and Means:

GENTLEMEN, — The largest consumption of cotton in one year, was in 1860, when the total consumption of the United States, north and south, was about 400,000,000 lbs.

Of all Europe, 1,844,700,000 “

Total 2,244,700,000 “

equal to about 5,000,000 bales of 450 pounds each.

From this consumption of cotton an excessive supply of cotton fabrics was made, which would probably have caused a serious check to this branch of industry had it not been for the war.

It may therefore be assumed that whenever the total product of the world shall be equal to 5,000,000 bales of the American commercial weight of 450 pounds each, there will be *cotton enough*.

Whenever there is *cotton enough*, the price will be regulated in Europe by the price at which those countries in which cotton is free from taxation can afford to continue and increase its cultivation, even though such countries shall each produce a comparatively small part of the total supply.

The countries which will exercise the chief control in case a tax is imposed upon American cotton, will be, first, India; second, Egypt; and third, Brazil.

It is therefore fit that we should consider the supply of cotton other than American, and see how soon it will become the regulator of the price of the whole supply.

Europe consumed, in 1865, a total of 1,189,600,000 pounds of

cotton, equal to 2,657,000 bales of 450 pounds each. Of this quantity, an amount equal to about 2,200,000 bales was from other countries than the United States. (I cannot state the exact proportion, as the consumption on the Continent is only given in gross, but from the detail of *receipts* I find that the above statement must be very near the mark.)

During the present year, 1866, it is not likely that there will be any increase, probably a decrease, in the supply from other sources, as the crop of the Mediterranean raised in 1865, was a bad one, and the planting in India was decreased by the low prices prevailing in the spring of 1865.

It has been very fortunate for this country that the crop of cotton of 1865, planted elsewhere, for delivery in 1866, did not prove a good one, as it has enabled us to sell a large portion of our unexpectedly large stock and crop of 1865, at very high prices; but these same high prices have not only given the much-needed stimulus to the organization of free labor in this country, but they must have given the same stimulus to a large planting in all other countries, and it is surely safe to assume that if all other countries have in any one year yielded a supply equal to 2,200,000 American bales, they will, under such stimulus, and with the dread of a great reserve of southern cotton removed, have planted enough to yield 2,500,000 bales of American weight for delivery in twelve months from Nov. 1, 1866.

If, then, the United States shall, in 1866, also produce 2,500,000 bales, (which the writer believes to be improbable, almost impossible,) there may be 5,000,000 bales for delivery from Nov. 1, 1866 to Nov. 1, 1867, almost equal to a full supply, but not quite, as the average quality will not be equal to that of American, and cotton will consequently be almost certain to bear a high, but not excessive price. It might therefore be said that cotton would, for one year at least, bear a tax as high as that recommended by the Revenue Commission, viz :—five cents per pound.

But it must not be forgotten that this year will be a most expensive year in the cultivation of cotton, and therefore there should not be a heavy tax imposed, if there is the least possible danger that it will have to be paid by the producer, or any part of it.

Is there any emergency to warrant even such a temporary departure from sound principle as would be involved in the imposition of a tax upon a raw material, our principal article of export, as high as five cents per pound, a tax equal to at least one hundred per cent upon the cost of producing cotton in India?

If our revenue were not sufficient there might be an excuse; but with an ample revenue there can be none.

There is another view of this matter. It is alleged that the cotton of India, our principal competitor, is so inferior to our own as to warrant our imposing a tax of 5 cents. India cotton formerly sold at $\frac{1}{2}$ to $\frac{2}{3}$ the price of American, but under the pressure of necessity, such improvements have been made in machinery as to cause the short-stapled cottons to bear $\frac{2}{3}$ to $\frac{3}{4}$ the value of American.

Now, given a supply of 5,000,000 bales, *or barely enough*, is there not danger that the average price, free from taxes, would not exceed 20 cents; say for Surats or short staples, $17\frac{1}{2}$; American, 22? These being the average values, in gold, without regard to taxes, and the supply being barely sufficient, the attempt to add the tax of 5 cents would be partially successful, and it would probably result in enhancing the price, say to 19 or 20 for Surats, and 24 to 25 for American.

But let us look forward a single year beyond. Let it be admitted that the supply delivered from Nov. 1, 1866 to Nov. 1, 1867, shall be less than 5,000,000 bales, less than *enough*, and the price consequently so high as to enable this country to add the five cents tax, can any one doubt that such price would still further stimulate production, carry that of other countries nearly or quite to 3,000,000 bales, and our own crop to 3,000,000 bales or over? Then the price must fall to a low point, and the only tax which could possibly be borne by American cotton would be one which should represent less than the difference in value between American and Surat cotton, estimating such values at old-fashioned, or what may be called normal prices. Say eight to nine cents for Surats, and ten to thirteen cents for American. In such event two cents would be the highest point, and even that would have to be temporarily removed.

It may seem absurd to intimate even the possibility of such

prices so soon as the year 1868, but the whole question turns on the aggregate crop of the world being a *little more than enough*, and if 6,000,000 bales be a little more than enough, such prices are possible.

It may not be denied that at such reduction in price the cultivation of cotton would cease in many parts of the world, but India and Egypt would be slow to give up the struggle; and in order to regain the monopoly or absolute control of the markets of the world, which the writer fully believes our great superiority, both in point of soil and climate, entitle us to, our cotton must be absolutely free from tax during the period of low prices, which must inevitably follow the excessive prices which have prevailed. Such depression will be the more sure to come, and such necessity for the removal of all taxes upon cotton, if we now put the rate too high, thereby increasing the stimulus to production elsewhere; and if raw cotton is to be looked to as a source of permanent revenue, it is believed that such result will be reached with far greater certainty by leaving the tax as it now is than by raising it to a higher rate.

When the testimony was given before the Revenue Commission last autumn, the writer advocated a tax upon cotton not exceeding three cents per pound. This was at a time when the existing supply of cotton, for the year 1866, was believed to be far less than it is proving to be, and when the prospect of a full supply seemed far more distant than it now does; but even this tax was advocated as a part of a system by which the manufactured article should be relieved from a part or the whole of the ad valorem tax of six per cent.

The tax upon cotton is now two cents per pound, and it is not proposed to reduce the tax upon manufactures below five per cent. The aggregate of two cents per pound and five per cent on sales is equal to twenty per cent per annum upon the capital invested in cotton spinning, and it is believed that this is as much as one branch of industry can bear.

This aggregate will be disastrous to the manufacture of coarse fabrics, unless a drawback to the full extent of such taxes be continued upon all cotton fabrics exported. There is now in New

England *a surplus* of machinery for the manufacture of coarse cotton goods for home use only, and the extension of manufacturing in the West and South will be prevented for many years, if these mills are confined to the home market by the absence of drawback.

Five cents per pound on cotton is six cents on each two-bushel grain bag, or three cents per bushel on grain.

The capacity of the Bag Mills is over 30,000 per day, and all are wanted when cotton is at twelve to fifteen cents per pound.

If the tax upon cotton is raised to five cents, either the producer or the consumer must pay it; if the latter, the manufacturer becomes the agent for its collection. At five cents and five per cent on sales, the burden would be thirty per cent per annum upon capital invested in cotton spinning, which must be collected by the manufacturer in full before he can secure any profit whatever.

It may be added that when the evidence upon cotton was taken by the Revenue Commission, in October last, the supply of cotton, for the year then ensuing, was generally believed to be inadequate to continue the rate of consumption until the new crops should be delivered next autumn, and very high prices were believed to be probable; but the addition of not less than 500,000 bales to the quantity then estimated, has changed the whole aspect of the case, and the price is now much lower.

It may also be stated, that at that date the very full statistics of the consumption of cotton *upon the Continent of Europe*, during the year 1865, were not attainable; and it now appears that there was a largely increased supply of cotton from other countries than the United States, obtained by direct importation at Havre, Marseilles, Trieste, &c.; and we realize now, what was not then apparent, that other countries have reached a crop equal to over 2,000,000 bales of American weight.

This does not, in any manner, prove that we cannot regain our control of this staple; but warns us, that in order to do so, our taxes upon it must not represent a premium of 50 to 100 per cent upon its cost elsewhere, and that the total crop of the world is now so near a full supply as to raise the question whether raw cotton should be taxed at all.

E. A.

APRIL 20, 1866.

The above memorandum was forwarded to Washington last spring (April 1866). The estimates then made of the possible future supply of cotton proved to be far below the mark.

Europe alone consumed, in the year 1866, 4,236,740 bales of cotton (being within ten per cent in weight of the great consumption of 1860) ; of this great consumption more than two-thirds in weight was from other countries than the United States.

The statistics in regard to cotton have proved (as statistics usually prove) a snare, rather than an aid to those who may have attempted to take special action upon them at a given date ; but there can be no question that the general inference to be drawn from them is, that American cotton must be free from taxation if we expect to regain the control of the markets of the world ; and it seems quite probable that one of the first duties of the next Congress will be to repeal the law by which the tax is imposed.